

The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF



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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, etc., will be welcomed from the profession.

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Professional Notes.

THE 39th Annual General Meeting of the Society of Incorporated Accountants and Auditors will be held at Cordwainers Hall, Cannon Street, London, E.C., on Tuesday, May 13th next, at 2.30 p.m. precisely. This meeting will be followed by an Extraordinary General Meeting of members to consider certain amendments to the Society's regulations, of which notice will be circulated to the members.

The Bill promoted in the Parliament of the Union of South Africa to provide for the establishment and incorporation of the South African Society of Accountants has passed through the Select Committee to which it was referred, and has been

reported with amendments. We understand that the matter will be referred to by the President of the Society of Incorporated Accountants and Auditors (Mr. G. S. Pitt) in his speech at the forthcoming Annual Meeting.

In reply to a question in the House of Commons on April 15th, the Chancellor of the Exchequer stated that the approximate amount of excess profits duty in assessment at March 31st last was £161,000,000. These arrears were subject to adjustment on appeal or otherwise, and the duty to be ultimately received by the Exchequer was expected to fall far short of the amount stated. The adjustments would be made partly by writing off duty in assessment and partly by repayment, but the Chancellor of the Exchequer was unable to forecast the amount that would have to be repaid.

The Chancellor of the Exchequer also stated that the arrears of income tax on March 31st last in Great Britain and Northern Ireland were £39,628,000, and the arrears of super tax £25,972,000. The income tax arrears showed a diminution as compared with former years, but the arrears of super tax were heavier. It is difficult to draw exact deductions from these figures because the rate of income tax has been reduced, but they appear to us to indicate that many of the super tax payers are finding it increasingly difficult to meet this additional impost, because in levying taxation on people's incomes no regard is paid to other obligations they are compelled to meet.

By the time this issue is published the Budget will have been unfolded in the House of Commons, but we have not thought it necessary to await the disclosure of the plans of the Chancellor of the Exchequer. The Budget is of greater concern to the members of our profession as individual taxpayers than as practitioners. In the latter capacity they are more interested in the Finance Bill, which is founded on the Budget and which will appear in the House of Commons in due course. It may not be amiss, however, for us to mention one or two points from the speech of Sir James Martin at the recent deputation from the Association of British Chambers of Commerce to the Chancellor of the Exchequer. He pointed out the great difficulty which they felt in connection with the assessment of income tax under Schedule D in that the tax was levied in every year on the earned profits and not on the actually realised profits. The result was a wide gulf between the taxable income and the income which was available for distribution and spending. A firm or an individual might have a considerable earned income and yet be compelled to borrow from bankers to meet taxation and other expenditure.

In regard to the reserves of both private firms and limited companies, Sir James Martin said it was impossible in these days to carry on business without adequate capital, and the best and most economical method of raising that capital was by

leaving in the business as much of the profits as possible. Many of his colleagues considered that profits left in a business by proprietors and partners should not be subject to super tax. Although he did not feel himself able to argue that point owing to technical difficulties, yet he had very much sympathy with the proposal. In the case of companies under sect. 21 (1) of the Finance Act, 1922, which dealt with super tax on undistributed income of certain companies, he pointed out that the Special Commissioners had power in determining whether a company had or had not distributed a reasonable part of its income to have regard not only to the current requirements of the company's business, but also to such other requirements as might be necessary or advisable for the maintenance and development of the business. He commended to the Chancellor of the Exchequer the consideration of this particular matter on lines such as these.

It would appear, however, from a statement contained in a letter from Mr. S. Osgood to the *Incorporated Accountants' Journal* published in our April issue, that the Special Commissioners of Income Tax have decided that where a company could have reasonably declared a dividend higher than that actually declared, then the effect was to bring the whole of the undistributed profits for the year in question into the super tax net. The effect of this, as our correspondent pointed out, was, supposing that the profits available were £10,000 for the year and it was found or admitted that £3,000 of this might, having regard to the requirements of the company, have been distributed in dividends and that £7,000 should properly have been retained in hand, then if £3,000 had not in fact been so distributed the Special Commissioners ruled that they had no discretion except to direct that the whole £10,000 should be treated as distributable in the form of dividends and so come within the scope of the section.

We have not been able to ascertain that any case of this sort has been taken from the Special Commissioners to a higher Court, and an authoritative decision on the matter at an early date would appear to be desirable. The preamble to Clause 21 refers to "income of a company which would otherwise be distributed," but the concluding words of sub-sect. (1) are "the said income of the company shall for the year or other period specified in the notice be deemed to be income of the members and the amount thereof shall be apportioned among the members." At the same time there is the proviso already referred to empowering the Commissioners to have regard to all the requirements of the company's business.

The Incorporated Accountants' Students' Society of London have added greatly to the value of their sessions by enlisting the support of eminent lecturers, who have gone outside the subjects ordinarily dealt with in the syllabus in order to discuss the duties of accountants in relation to important questions of the day. In this issue we

are able to publish a valuable paper by Mr. C. S. Orwin, M.A., Director of the University of Oxford Institute for Research in Agricultural Economics, on "Agricultural Cost Accounts," and this is a fitting complement to the important address, reported by us in December last, of Lord Askwith on "Accountants and Strikes." We hope that Mr. Orwin's paper will be widely read and carefully studied. One cannot regard with pride his statement that when he came to look round for materials for his study of agricultural economics no farming costs were available, and no system of costing applicable to agriculture had been elaborated by anyone in this country.

Questions have been raised as to whether double income tax will not be suffered for the first year by those who take up the Conversion Loan, on account of the fact that the interest on this loan is to be taxed at the source, whereas the interest on the 5 per cent. War Loan is not so taxed (except in the case of Bearer Bonds) but is taxed a year later by direct assessment. This, however, is provided against by sect. 25 of the Finance Act, 1919, as amended by sect. 30 of the Finance Act, 1920, the latter section making it clear that the relief is to extend to Government Securities which may be issued at any time. The Chancellor of the Exchequer has confirmed this in answer to a question in the House of Commons. As super tax liability is governed by the amount of the income tax assessment, it follows that no hardship or loss can arise in connection therewith.

In the case of *Williams v. Perry*, the Divisional Court has held that where a dwelling house has been let solely for use as business premises, the effect is the same as if there had been a structural alteration for the purpose of converting the property into business premises, and that the tenant cannot claim the protection of the Rent Restriction Acts by afterwards using a part of the premises as a dwelling house in breach of his agreement. In the course of his judgment, Mr. Justice Swift said: "Sect. 12 (6) of the Rent Restriction Act, 1920, does not say that where the Act is applicable to any dwelling house it shall continue to apply to a factory into which it has been converted. I see no reason why a dwelling house should not be converted into business premises just as much by the user of the premises as by structural alteration."

Another important decision relating to tenancies was given in the King's Bench Division in the case of *Precious v. Reedie*. The tenant of a shop, which was held on a monthly tenancy, received from his landlord on September 5th a notice dated September 1st reading as follows:—"I hereby give you one month's notice to quit 5, Commercial Street, as I require the house for occupation." This was held by the County Court Judge to be a sufficient notice to quit for the month expiring on October 31st, and an order was made accordingly. On appeal this has been reversed, and two points have been decided: (1) that in a monthly tenancy a month's notice

to quit is sufficient, and (2) that the notice must correspond with the length of the tenancy and must terminate on the day of the month on which the tenancy began. Mr. Justice Bailhache in his judgment said that the notice was evidently bad for October 1st, as it was only served on September 5th, but it might have been good for November 1st if it had contained words such as "on the expiration of a month of the tenancy next after one month from the date hereof." In another case a notice to quit "at the earliest possible moment," given on December 28rd, 1918, was held to be a good notice to determine the tenancy at the expiration of six months from March 1st, 1914. His Lordship said there was nothing uncertain in such a notice because the tenant would know when the tenancy began, and therefore would know what was the earliest possible moment at which it could be determined.

An interesting judgment relating to Corporation Profits Tax was given by Mr. Justice Rowlatt in the King's Bench Division recently in the case of *Commissioners of Inland Revenue v. New York and Pacific Steamship Company*. The effect of the decision was that where wear and tear allowance has accumulated for income tax purposes by reason of the assessable profits being insufficient to cover the allowance year by year, the amount to be allowed for the purpose of Corporation Profits Tax is to be the accumulated amount and not the actual wear and tear applicable to one year. The contention of the Crown was that the allowance should be same as for excess profits duty, namely one year's wear and tear, but this view the Court refused to accept.

Where a company had retained its registered office, paid its secretary's salary and directors' fees and certain small amounts for office expenses, but had not carried on any active business for a number of years, the Inland Revenue claimed, in the year 1920, when new directors were appointed and substantial profits were made, that a trade had been set up and commenced in that year within the meaning of Rule 1 (2) or Rule 8 (1) of the Rules applicable to Cases 1 and 2 of the Income Tax Act, 1918. The company on the other hand contended that its trade had never been discontinued and that therefore the assessment should be made on the usual three years average. The company's contention was upheld by the Court and the appeal allowed. The case was *Kirk & Randall, Limited, v. Dunn*.

The Court of Appeal has affirmed the decision of Mr. Justice Rowlatt in the case of *Alianza Company, Limited, v. Commissioners of Inland Revenue*, which related to the question of liability to Corporation Profits Tax in respect of a business carried on in Chili with a local board of directors. Mr. Justice Rowlatt's decision was reported in our issue of August last, and the effect was that the appellant company was a British company assessable to income tax in respect of foreign possessions under Case V and to corporation profits tax in respect of its profits.

In giving his decision in a bill transaction in the case of *Greenhalgh v. The Union Bank of Manchester, Limited*, Mr. Justice Swift laid down some important rules regulating the dealings of a bank with the accounts of its customers. The point at issue was whether the proceeds of certain bills when received were to be appropriated to a specific account to meet other bills of the customer which were falling due, or were to be paid into the customer's general account, which was in debit. The bills in the first instance were paid into a "bill provisional account" to await maturity. His Lordship said that "a banker, having two accounts open for a customer and having appropriated bills to one, is not entitled to transfer their proceeds to the other without the customer's permission. He has no right without the assent of the customer to move either assets or liabilities from one account to the other. The very basis of the agreement with the customer is that the accounts shall be kept separate."

A Company as Commercial Traveller.

Nor all questions regarding excess profits duty are yet disposed of, but surely we must now be getting through them. At any rate one more was answered in the Scottish Court of Appeal very recently in the case of *Moorhead, Sons & Co., Limited, v. Inland Revenue*. The law confers immunity from excess profits duty on commercial travellers, but probably the average man in the street reading this would have understood that the exemption was limited to individuals and did not extend to legal persons, such as limited companies. We should further think it is extremely probable that that was what was in the mind of the framer of the Act. But if so it would have been easy to make it express, and nowadays in the Income Tax Acts this distinction between "individual" and "person" is very carefully drawn. It was not always so, and there was, a good many years ago, a case which had to go to the House of Lords before it was declared that income tax exemption and abatement rights were competent only to individuals and could not be claimed by societies whether corporate or unincorporated. As matters stand the latest excess profits duty case has gone the other way, for the Court of Appeal in Scotland, reversing the ruling of the Special Commissioners, has decided that the appellants, an incorporated company with limited liability, are entitled to exemption from duty on so much of their profits as is derived from operations of the nature of commercial travelling.

The company has three lines of activity. These are (1) produce merchants, dealing as principals; (2) commission merchants, selling American imports for the owners on commission; and (3) commercial agency for United Kingdom principals. On the first and second branches, liability for excess profits duty

was admitted; the dispute concerned No. 8 only. The third line was carried out in this way: the company by its servants canvassed Glasgow and the West of Scotland for orders for the goods in question. When obtained these orders were sent to the principals to be executed by them. The goods passed direct from the principals to the purchasers, and the money passed direct *vice versa*, without the intervention of the company in either case. On these facts the Court reached the conclusion that the business was that of commercial travelling, and that it mattered not that it was done by a legal, and not by a natural, person.

The Income Tax Nullity Clause.

WHAT we refer to as the nullity clause is now Rule 23 of the All Schedules Rules of the 1918 Act, which renders void any agreement to pay interest without deduction of income tax. This clause is continually coming up for judicial attention. It was spoken of very disrespectfully in the House of Lords in a recent case. It is quite easy to walk round it, though it needs to be done with knowledge. An attempt to invoke the statutory nullity in unusual circumstances was made in the case of *Hunt v. Mortimer*, recently decided by Mr. Justice Tomlin, and we are glad to say that the attempt has failed. This remark is made on general principles, and without knowing anything about the inwardness of the particular case.

There was a settlement made in 1910 by a married man on his wife through the medium of trustees. He transferred investments to the trustees upon trust to collect the income and to pay it to his wife. The income is all received under deduction of tax at the source, and so all that the trustees can, and do, pay to the wife is the net amount. This, of course, was fully realised in advance, and in the same deed the settlor added a clause by which he agreed to pay to the trustees at the end of each year an amount equal to all the income tax suffered by the income of the trust fund during the year then ended, and this payment they were to treat as income and to pay to the wife.

Now for some reason the objection is raised that this obligation is void under the statutory rule, as amounting to an agreement to pay or provide the income without deduction of tax. The learned Judge has rejected this contention, and holds that the obligation is valid. His reasons are (1) the lady did suffer the deduction of tax from the income; she did not receive it without deduction of tax; and (2) this is a real and not a nominal suffering on her part, for (a) she lies out of the whole tax so deducted for some time, namely, for the interval between the due dates of the interest payments and the end of the year when the attacked obligation operates in fact; and (b) she lies out of part of the tax permanently, for even at the end of the year, when the supplementary payment comes in, it is

receivable in law only under deduction of tax, and as against that latter tax there has, in this particular deed, been no attempt to give the lady any relief.

These particular "points" might not be available in every such case, and therefore we venture to add what seem to be broader grounds on which the same decision may be reached. (1) The statutory nullity applies between payer and payee, and here the payers are the companies whose interest payments are in question and not the husband; and (2) there is, so far as we are aware, no invalidity in an obligation by A to refund to B the amount of income tax which B may suffer on the whole or any specified part of his income, at least when that income is not payable by A.

Super Tax on Purchases cum Div.

THE Supreme Court in Scotland has decided a case of this nature, which is important as it appears that there is no precedent. Shares were sold in the middle of the company's year 1919-20 at the price of £1,050, the letters which formed the contract expressly bearing "the odd £50 being to cover the portion of the dividend accrued to date." The dividend was declared and paid on May 18th, 1920, for the year to February 28th, 1920. The amount was £100 free of tax, equal to £142 gross. This fell into 1920-21 income for super tax purposes, and therefore, so far as supertaxable, that tax fell to be levied in 1921-22. But the purchaser's contention was that one half of the dividend was not income for super tax at all. He said that to that extent the dividend had been purchased by him with his capital; that it was accordingly in part capital; that it was apportionable; and that £50 free of tax, or £71 gross, of the dividend did not fall to be included in the computation of the purchaser's income for the year 1920-21, supertaxable in 1921-22. The Special Commissioners upheld this contention and decided in favour of the purchaser. On appeal this has been reversed. The decision of the Court sustains the argument of the Crown, which was to the effect that the dividend was not purchased, as there was in fact no dividend declared at the time of the sale which could be purchased; that what was bought was the shares which were valued by the parties above par on account of the possibility of a dividend being declared; and that the transaction was simply a capital transaction.

It can hardly be suggested that the transaction was in any special position merely because of the express explanation in the letters of why the £50 was made part of the price. Such appropriation of the £50, if it can be correctly so described, was not repeated in the transfer, though we do not suggest that it would have mattered even if it had been. Indeed one can imagine the contract and the transfer being on basis of ex div. at £1,000, and then as an afterthought, and as a separate transaction, the basis being altered to cum div. by

letters subsequent to delivery of the transfer, and in consideration of an extra £50 of price; but even this exceptional and special form would in our opinion make no difference.

If these views are sound, then the Court was amply justified in stating that a decision in favour of the purchaser would revolutionise Stock Exchange practice, upset the established practice of the Inland Revenue Authorities, and go against the statute law.

In this case the question had reference to an accruing dividend for one year, but it might be a sale of cumulative preference shares with ten years "arrears" of dividend. A decision in this actual Scottish case in favour of the purchaser would mean that, in the other case here assumed, the arrears, if and when received, would not be supertaxable income. No doubt there may be hard cases, or cases apparently hard. Thus, in the case of the preference shares, it might happen that the purchaser got the ten years arrears shortly after his purchase, and never got another penny, whether of dividend or capital, out of his purchase. But, nevertheless, all the dividend arrears would be supertaxable income.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

- CROMPTON, WILLIAM (F. Walmsley & Co.), 330/386 & 351/353, Produce Exchange, Hanging Ditch, Manchester, Practising Accountant.
- HAWKINS, THOMAS BENDRY (Wolfenden & Naylor), Bradford Buildings, Mawdsley Street, Bolton, Practising Accountant.
- LEGGE, CLAUDE WHORLOW (Clinch & Legge), 119, Moorgate, London, E.C., Practising Accountant.
- PICKEN, FREDERICK WILLIAM (Harcourt, Picken & Co.), 23, Colmore Row, Birmingham, Practising Accountant.
- PUGH, ALFRED EDWIN, 19, Carlton Chambers, High Street, Newport, Mon., Practising Accountant.
- WALKER, OWEN (Painter, Mayne & Walker), 103, Cannon Street, London, E.C., Practising Accountant.

ASSOCIATES.

- BUDD, WILLIAM MORRIS, Clerk to Cooper & Kenny, 12-14, College Green, Dublin.
- CRAVEN, GODFREY, Clerk to Harry L. Price & Co., 15, Fountain Street, Manchester.
- FLINT, FRANK WALTER, Clerk to Alan Boaler, Bromley House, Angel Row, Nottingham.
- HALL, WALTER BRIAN (Buckley & Hall), Union and Smith's Bank Chambers, Hull, Practising Accountant.
- HEWITT, DOUGLASS (Lingard, Lovell & Hewitt), 5, South Place, Finsbury, London, E.C., Practising Accountant.
- HOPKINS, JOHN MURRAY, Clerk to Temple, Gothard & Co., 4, 5 & 6, King Street, Cheapside, London, E.C.
- HYSLOP, HUGH, Clerk to Sprigg, Abbott & Crawford, Guardian Buildings, Adderley Street, Cape Town.
- KEANE, JOHN FRANCIS, 11, East 36th Street, New York, U.S.A., Practising Accountant.
- KING, FRANCIS WILLIAM ERNEST, Clerk to Bolton, Pitt & Breden, 27, Clements Lane, Lombard Street, London, E.C.
- MARTIN, THOMAS ARCHDALE, Clerk to Lowe, Bingham and Matthews, Chartered Bank Buildings, Queen's Road, Central, Hong Kong.

POUNDS, ERNEST ALFRED, Clerk to Bourne & Stringer 68, Aldersgate Street, London, E.C.

RISPIN, WILLIAM STEWART, Clerk to Reginald L. Tayler & Co., Coventry House, South Place, Moorgate, London, E.C.

SHARPE, ERNEST JOHN, Clerk to Gladwell, Walter & Co., 19, Garrick Street, London, W.C.

COMPANY ACCOUNTANT'S CLAIM TO PENSION.

In the King's Bench Division, on April 14th, Mr. Justice Shearman heard an action brought by Mr. Frederick Thresher Roberts, an accountant, of Granville Road, Stroud Green, London, against Messrs. Thomas de la Rue & Co., Limited, of Bunhill Row, London, E.C., claiming a declaration that there was a valid and subsisting agreement by the defendant company to pay plaintiff a pension of £300 a year, and also arrears of pension from June 30th, 1923.

Mr. Cloughton Scott, K.C., for the plaintiff, said the defence raised several points. It was said that there was no agreement to grant a pension; if there was any agreement it was made by Mr. Stuart de la Rue personally and not on behalf of the company; there was no consideration for the pension; the payments made by way of pension to plaintiff from November, 1921, to June, 1923, were voluntary payments; and the action was premature. Counsel explained that plaintiff, who had for twenty years been employed by a firm of accountants who had been accountants to the defendants, was asked by Mr. Stuart de la Rue, the governing director of the defendants, to enter the company's service. Plaintiff pointed out that if he did so he would lose his claim to pension from his then employers, and Mr. de la Rue promised that his service with that firm should be taken into consideration in fixing any pension he would be entitled to from Messrs. de la Rue. Plaintiff entered defendants' service at the beginning of 1916. He was made treasurer at a salary of £500 a year. In January, 1919, he was made a director of the company, and when he left the company in May, 1921, he was receiving £2,000 a year and a share of the profits. Differences arose on the board, and Mr. Stuart de la Rue suggested to plaintiff that he should resign, undertaking that if he did so he should receive his full salary up to October 31st, 1921, and thereafter a pension of £300 a year. Plaintiff agreed to resign his directorate of the defendant company and two associated companies on this understanding, and he received a letter stating that at a board meeting the arrangement had been confirmed. He was paid salary up to October 31st, and thereafter pension payments of £25 a month till June 30th, 1923. As no payment was made in July plaintiff wrote asking why, and was informed that the company could not assume liability for further payments, which had always been quite voluntary.

Plaintiff gave evidence in support of his case. He said there was a condition attaching to the pension that it should be reduced by half the amount he might earn in any year, but since he had left the defendant company he had earned nothing except £10 in November, 1921.

In cross-examination plaintiff said that he had not tried to get any work.

Mr. Cartwright Sharp, for the defence, argued that the agreement to pay plaintiff the pension was a personal matter with Mr. Stuart de la Rue. In any case, Counsel contended, the payments to plaintiff were quite voluntary and could be stopped by defendants at any time. They had been stopped because plaintiff, instead of trying to get employment, was preferring to sit still and live on the dole.

Mr. Justice Shearman, in giving judgment, said Mr. Stuart de la Rue had large powers, and he could engage people and give pensions. Plaintiff was asked to give up his position on certain terms, and his Lordship held there was good consideration for the pension agreement, which he held to be binding on defendants. His Lordship granted a declaration that the agreement was valid and subsisting, and that the pension became due at the end of October in each year. Plaintiff must have the costs of the action.

Correspondence.

TRANSVAAL GOLD MINING COMPANIES AND INCOME TAX.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—In the February issue of your *Journal* on page 116 you state that—

"A valuable concession is enjoyed by shareholders of Transvaal gold mining companies in regard to income tax assessments. The dividends are declared free of the Union of South Africa dividend tax, and under the arrangement with the Empire States these dividends are only liable to half the ordinary rate of tax in this country. The effect is to increase materially the value of the dividend declared from the point of view of net income."

If you will kindly refer to page 44 of my "Guide to Income Tax," a complimentary copy of which was sent to you I believe some considerable time ago, you will observe that under the Income Tax Acts gold mining companies in the Union pay dividend tax at 2s. per £, while diamond companies pay only 1s. 6d. per £ dividend tax, and I may add that all other companies (exclusive of private companies which pay a consolidated tax) pay dividend tax at the rate of 1s. for every £ of the taxable amount of the dividend.

I should like to point out that there is no concession enjoyed by shareholders of Transvaal gold mining companies, but the position is that since the company pays the dividend tax then the shareholder is not taxed again for normal tax purposes in respect of such dividends; but if you will refer to the Act you will find that shareholders receiving dividends from mining companies, or any other company for the matter of that, are liable to pay super tax on such dividends even though the company has paid dividend tax thereon. So far as dividend tax in the Union is concerned it is merely a procedure under the Act whereby the tax on dividends distributed is collected at its source by way of assessment upon the company distributing the dividend. Companies paying dividend tax have, under sect. 48 of Act 41 of 1917, the power to deduct the dividend tax so paid from the dividend distributed. Some companies in the Union do deduct the dividend tax paid by them from the dividends distributed among shareholders, but for some reason or other most of the gold mining companies seem to prefer to distribute their dividends free of this tax, but there is no concession so far as the shareholders are concerned whether the company pays the tax or whether it is deducted from the distribution of dividends, and I am writing to you explaining the position as it appears to me that your paragraph is somewhat misleading.

Yours faithfully,

Port Elizabeth, S. Africa.

F. W. ANTON EVELEIGH.

GLOUCESTER RAILWAY CARRIAGE & WAGON COMPANY, LIMITED, v. COMMISSIONERS OF INLAND REVENUE.

To the Editors *Incorporated Accountants' Journal*.

SIRS,—My attention has been called to an article in your issue for this month. This article is so very incorrect that I feel it is desirable to call your attention to the matter. The company were and are manufacturers of railway wagons and other railway rolling stock. Some of these wagons, built to the special specification of the purchasers, were sold for cash or under a hire purchase agreement, but the company up to 1920 also conducted a very large business in the letting of wagons on simple hire for varying terms. The wagons for this business were either purchased or built. It decided to relinquish the simple hire part of the business and to use the money so obtained for further development of its building business, either for cash or on deferred purchase. It is claimed by the company that the sale of this wagon hiring business, including the wagons and the benefits of the tenancy agreements, was a sale of capital assets of the company on

the closing down of a branch of the business, and was not assessable to corporation profits tax or income tax. On the other hand, it is contended by the Crown that the company's business is to manufacture and sell wagons, and therefore any surplus on the sale of wagons which were let on simple hire is a revenue credit subject to tax.

Secretary's Office,

Gloucester,

April 14th, 1924.

Yours truly,

J. H. BEACH,

Secretary.

[We understand from the above that only the simple hire part of the business has been dropped. We regret that this was not made clear in our notes last month. It does not affect our standpoint, as the decision was that there were not two separate businesses but one undivided business, and that the sum in dispute was part of the profit derived therefrom and therefore assessable.—EDS., I.A.J.]

AUDITOR'S CLAIM FOR EXTRA SERVICES.

In the Mayor's and City of London Court, on Friday, April 4th, before Judge Shewell Cooper, Mr. Leonard W. Soar, Incorporated Accountant, 5, Wine Office Court, London, E.C., sued Florence Mary Dobell, married woman, trading as the Sandringham Manufacturing Company, shirt manufacturers, 19, Hanover Square, London, for £52 10s. for professional services rendered as an accountant between May, 1923, and February, 1924.

Mr. Aronson appeared for the plaintiff, and Mr. Howard for the defendant.

For the plaintiff it was stated that in April of last year he was engaged at a fee of £26 per annum to audit the books of the company. In the course of his work he was approached by the husband of the defendant in connection with other matters, including the introduction of capital and the turning of the business into a limited liability company. He attended numerous conferences with Mr. Dobell in connection with these matters, and said that it was agreed by that gentleman that he would be paid for his extra services apart from his fee as the firm's auditor. He sent in a bill in February and received a letter from the defendant in which Mr. Dobell stated that the size of the bill "took his breath away."

Plaintiff said he had charged in the account a fee of 15s. per hour, equivalent to £5 5s. for a day of seven hours, which was a very moderate scale on which an auditor might charge.

Cross-examined, Mr. Soar admitted that a diary recording his services to the defendant, which had been put in as evidence, had been made up by him subsequent to the commencement of the action. He kept notes of his attendances and work, however, upon sheets of foolscap paper, and it was from those that he made the entries in the diary.

For the defence it was alleged that a considerable portion of the work charged for in the account referred to was covered by the remuneration paid him as auditor of the firm. Of the remaining portion of the account the defendant alleged that it referred "mostly to friendly conversations with my husband for which it was never contemplated that the plaintiff should be paid, and I never agreed to make him any payment in respect thereof." Defendant further alleged that the charges were excessive and unreasonable.

Mr. Dobell, giving evidence, said he could not remember the plaintiff ever mentioning to him that he would be required to pay for the services which he was rendering, apart from those which had been agreed between the parties. He fully realised, however, that Mr. Soar was performing additional duties and intended to remunerate him for them. He had no idea, however, that the charges would be anywhere in the neighbourhood of £52 10s.

Following the luncheon adjournment Mr. Howard informed his Lordship that a settlement had been reached whereby Mr. Soar had agreed to accept £21 and costs in settlement of his claim.

The record was therefore withdrawn.

ACTION FOR PROFESSIONAL FEES.

In the King's Bench Division, on April 15th, before Mr. Justice Shearman, an action was heard in which Messrs. Cates, Brown & Harding, Chartered Accountants, of 5, Coleman Street, London, E.C., sought to recover from Mr. Sidney Albert Miller £101 11s., the amount of their fees for services rendered.

Mr. R. Fortune, on behalf of the plaintiffs, stated there were two other defendants who had not been served. The case arose out of an action in the Chancery Division, in which Mr. Miller was saying as against two gentlemen named Mr. Coates and Mr. Fordyce that he was still a partner in a firm called the Embosotype Manufacturing Company of Edgware Road, London. A round table conference followed, at which it was suggested that the action should be settled. Before that was done, Mr. Miller's solicitor recommended that the books of the partnership ought to be investigated, and he instructed Messrs. Cates, Brown & Harding, on behalf of Mr. Miller, to have them investigated. It was in respect of the cost of that work that the present action was brought.

Mr. Philip Edward Harding, a member of the plaintiff firm, stated that about the end of November last he had a telephone conversation with Mr. Cardew Smith, Mr. Miller's solicitor, to the effect that Mr. Smith was acting for Mr. Miller in the partnership dispute, and he thought it would be a good thing if some accounts were got out. On November 28th Mr. Cardew Smith wrote: "We confirm our conversation over the telephone when we informed you that the defendants in this action were agreeable to your preparing the necessary accounts of the partnership business. When you have arranged an appointment with the defendants will you kindly let our client know, as he desires to be present."

Cross-examined by Mr. W. S. Knight (for defendant): Witness conceived he was acting for Mr. Miller as a principal.

The defendant, in evidence, stated that he never instructed Mr. Cardew Smith to instruct an accountant on behalf of himself or on behalf of the firm. On March 8th he received a letter from plaintiffs' solicitors asking for the £101. This was the first claim he had had in respect of it, and he immediately denied liability.

Giving his decision, his Lordship said it was perfectly clear that Mr. Miller gave his solicitor instructions to do everything that was reasonable for carrying on the litigation in which he was engaged. The solicitor instructed Mr. Harding to go into the accounts on behalf of Mr. Miller, and Mr. Miller ratified those instructions by taking part in the discussion regarding the accounts, and it was not disputed that the charge was reasonable. In the circumstances there must be judgment for the plaintiffs for the amount claimed with costs.

Obituary.

SETH BOOTHMAN.

We regret to record the death on April 2nd of Mr. Seth Boothman, F.S.A.A., Borough Treasurer of Rochdale, who was held in high esteem in the locality and to whose memory a warm tribute was paid by the chairman of the Finance Committee at a meeting of the Rochdale Town Council.

CHARLES LARKING.

A wide circle of friends and clients will have learned with regret of the death of Mr. Charles Larking, F.S.A.A., senior partner in the firm of Larking & Larking, of Commercial Chambers, Orford Place, Norwich, and at Maidstone, Chatham and Wisbech, which took place at Lowestoft on April 9th, at the age of 68. Mr. Larking's career from boyhood was a tribute to his own industry, ability and foresight, and in addition to his strictly professional work he undertook many other duties, including the secretaryship of the Norwich Chamber of Commerce. For the Norfolk and Norwich Hospital he rendered constant personal service, and was instrumental in raising large sums of money from time to time besides placing the finances of that institution on a sound basis. Mr. Larking was admitted a Fellow of the Society in 1890.

The Value of Cost Accounts in Business Administration.

A LECTURE delivered before the Liverpool and District Society of Incorporated Accountants, on April 4th, by

MR. F. W. BAIN.

The chair was occupied by Mr. C. HEWETSON NELSON, J.P., F.S.A.A., in the unavoidable absence of the local President.

Mr. BAIN said: In a rash moment I agreed some months ago, at the request of Mr. Hewetson Nelson, to give a paper to this Society, and in a moment of still greater rashness I consented to speak on "Cost Accounts." My rashness lies in attempting to speak to this particular Society on this particular subject. Had I to speak on it to almost any other society interested in business matters my task would have been comparatively easy, for there is still much missionary work to be done before business and industry generally attach sufficient importance to efficient "costing." But to a society such as yours this missionary work is unnecessary. During the last few days I have had the privilege of learning something of the development of your Society, and I have been particularly impressed by the progressiveness of its point of view by the scope and elasticity of its curriculum and by the broad basis of its examinations.

It is gratifying to a business man to find these qualities in a purely professional body, though at the same time it is somewhat disconcerting for the business man who consents in all innocence to address you to find that anything he had intended to say has been so much better said in the books recommended for your study, and that any method to which he himself is attached has already been expounded at length in the many papers that have been given to you from time to time.

There is, however, one aspect of cost accounts which has not, so far as I can find, had that importance attached to it which it deserves, and that is the value of cost accounts to the business man and the use he should make of them. With your permission it is with this aspect that I will attempt to deal to-night.

UTILITY OF COST ACCOUNTS.

In approaching my subject I am going to assume that we are dealing with the most characteristic of modern developments in business and industry, viz, the self contained firm or business, i.e., a firm which manufactures its own products and maintains its own marketing organisation. I am also going to assume a certain amount of common ground in connection with costing methods. I assume that we have a system which has given us the cost per standard unit of product, of raw material, direct labour and repairs, but which does not include general charges at works, such as management expenses, rates, taxes, &c., nor selling charges and administration charges, and I will attempt to imagine how a really intelligent and efficient managing director of a big business handling many kinds of products would use these figures, and endeavour to suggest his attitude in approaching some of the many problems which such a man would have to solve.

Now the first function of business is efficient service to the public, and the function of the business man is to ensure this service at a profit either to himself or to those whom he represents. It follows that he can achieve this only in so far as his business is run more efficiently than others. That again implies his own perfect control of the organisation of his business, and his complete knowledge of and ability to utilise the facts and figures relating to each of its departments.

INDIRECT CHARGES.

Now we have assumed that in this business we have in successful operation such an adaptation of any of the recognised costing methods as has given us the cost per standard unit of product of raw material, direct wages and repairs. The first problem we have to deal with is that of the "indirect charges" at the works, i.e., charges which must be debited to manufacturing cost. These include such charges as salaries

of works managers, engineers, chemists, and works office staff; they also include rates, insurance, taxes, &c., and a certain amount of indirect labour, that is, labour that cannot be charged directly to any particular plant or product. How are these charges to be allocated? There are no hard and fast lines regarding any of them, and there is a very wide variation of method.

I will not spend much time on this particular point, as there are still more controversial questions to be dealt with. The main thing I wish to emphasise is that in every works or factory the closest possible scrutiny should be made of works general charges, a term I use to cover the items of so called indirect charges which I have mentioned. In business generally one finds that there is a temptation at works to burke difficult allocation and slump big amounts into the most convenient account. At one works where I investigated costs methods some years ago, I found that in the course of the particular year under investigation a total of over £50,000 had not been allocated direct to the products made, but at the end of the costing period was arbitrarily allocated. Of that £50,000 more than half was made up of rates, taxes, insurance and salaries. Now, with the possible exception of the salary of the works manager and works office expenses, it was possible to have direct allocation.

ALLOCATION OF INDIRECT COSTS.

Rates, taxes and insurance, for instance, can be apportioned with ease direct to the various products produced, but there are of necessity works charges and expenses which cannot be charged direct to manufacture, but for which some method of allocation must be adopted. The method may be one of the following:—

- (1) Distribution by percentage on cost of material.
- (2) Distribution by percentage on cost of process wages or direct labour.
- (3) Distribution by percentage on prime cost.
- (4) Distribution by percentage on man hours.

Now you will have observed I have specifically excluded from these indirect works charges, rent, depreciation, and interest. In effect, they become limited to salaries of managers, works staff, and works office staff, plus the wages of general foremen and wages paid and material used on common services, such as general yard labour.

It is for our hypothetical managing director to determine the method of distribution, which he will do according to the nature of his business. Each method has its advantages and disadvantages, and a complete examination would occupy much more than an hour's lecture itself.

It will be clear that under any of the plans enumerated, only an average result can be obtained. None of them, moreover, takes account of the fact that these charges do not weigh equally upon all processes. It is obvious, therefore, that these methods apply with some semblance of accuracy only where the conditions are more or less uniform, where the wages paid do not vary greatly, where the size and character of the plant do not differ to a great degree, and where the products are more or less of the same general character.

Now our cost as arrived at up to this point is comparatively simple, and provided output is normal we have given our managing director the first and most essential information he desires, viz, the bare works costs of his products, but here it must be remembered that output is not always normal, and though our prime cost will not vary with output per unit of product, it is obvious that the works general charges must vary unless some method of adjustment is adopted. Even when demand falls very low it is impracticable to reduce the cost of managers, staff, &c. I think it is now generally accepted that the indirect charges chargeable to the output of a factory bears the same ratio to the indirect charges of the factory at normal capacity as the output bears to the normal output of the factory.

TESTS OF EFFICIENCY.

Now having obtained his bare works costs, our managing director has the information necessary to judge the technical or manufacturing efficiency of his factory. He will compare period with period and product with product. He can judge the soundness of his buying of material, he can estimate the capacity of his works manager and he can determine the quality of the labour he employs.

But that is not enough. The managing director of to-day has to base his whole selling programme, his line of development, and as a natural corollary, his programme of scrapping, on his costs, and he must therefore be provided with more information than we have yet given him.

It is a comparatively simple matter to devise a method of allocation for the cost of his sales department, his accountant's department, and even for his own salary and for the salaries of his officials not included in any of the departments named. Having done so we have arrived at a cost which includes:—

- Raw material,
- Direct wages,
- Repairs—(materials and wages),
- Works general charges,
- Selling charges,
- General office expenses.

By many such a cost would be accepted as complete. In fact I may say with safety that until between ten and twenty years ago such costs would have been generally accepted as being singularly complete. But during that time there has been a great change in the methods of business and industry. Just as fifty years ago practically every industry was conducted with a disregard for technical efficiency and waste recovery in the factory or works itself, and for the general public health and interest, in a way that is utterly impossible in these days of Factory Acts, Government inspection and a generally more enlightened community, so the methods of business applicable to a small personally controlled concern in the last century are totally inadequate for the necessarily highly developed business of to-day.

THE LAW OF DIMINISHING RETURNS.

Just as the prairie farmer can produce good crops of wheat for several years from virgin soil without the aid of fertilisers, but arrives at a time when with the exhaustion of his soil he has either to seek pastures new, or to apply the principles of scientific fertilisation—so in the industry of this country the old fashioned business man, who was content as long as there was a balance of profit on the year's working, has had to give way to the man who is prepared and equipped for the scientific revivification of the exhausted soil.

Now to my mind the problem to which this man will direct his attention is to what extent the costs we are now in a position to present to him provide sufficient data to direct his sales policy. Having got these costs, what further provision must he make in order to safeguard his business against loss? To my mind the three main items for which he must make provision are depreciation, interest and rent. Here we enter the field of controversy, and I should like to deal with these items in some detail.

First as to depreciation, the legitimacy of this as a charge on cost of manufacture is not by any means generally accepted. Within the last few years, however, there has been a marked change in the attitude of the business man regarding this matter.

In the costs we have so far prepared we have admitted the full charge for repairs, wages and materials in dealing with ordinary wear and tear. This charge includes the renewal of parts of machinery necessary to keep the particular plant efficient, and to that extent may be said to include allowance for a certain amount of depreciation, but the depreciation I speak of now covers much more than this. In any established business there is sufficient data to show that in spite of repairs the value of a plant depreciates from the moment it is erected, until, within a certain period, it has to be entirely replaced. In fact, one may say that through the agency of the Revenue Authorities of this country every industry has the data in its possession. A definite allowance is made for plant depreciation in assessing profits for income tax purposes.

BASES OF CALCULATING DEPRECIATION.

This is as a rule based on the original cost of plant, the probable years of service, and the ultimate scrap value. It is obvious that plant used for different purposes will have different rates of depreciation, and this is in fact recognised by the Revenue Authorities. For example, let us take a plant erected at a cost of £5,000, and let us assume that the estimated life of this plant is twenty years, and that at the end of that period it has a scrap value of £500—the amount of depreciation to be allowed for is therefore £4,500. Of course, it may be that through change of process or through some other cause

the plant may become worthless in ten years, and therefore the rate of depreciation will be materially altered, and for that reason must be closely studied. But assuming that our plant completes its allotted span, there are two methods by which the allowance can be made. We can either adopt a fixed percentage on original cost, or we may adopt a percentage on diminishing value.

The main argument in favour of the latter method is that it is more desirable to depreciate heavily during the early years when repairs and renewals are not costly, and to depreciate less heavily during the later years when repairs begin to become more burdensome, but on the whole it seems to me that there is a balance of advantage in favour of the fixed percentage on original cost, because the charge is uniform throughout the life of the plant, and therefore does not cause undue variation in the item on our cost sheet.

In the case of the plant I have already mentioned, suppose the capacity of the plant was equivalent to 100 tons per annum of product, we would find that for the first year of working the cost of depreciation when we adopted the percentage on original cost system would be

$$\frac{4500}{20} \times \frac{1}{100} = \frac{225}{100} = £2 \text{ 5s. 0d. per ton.}$$

To achieve the writing down of the plant to scrap value, £500, in twenty years by a system of percentage on diminishing value, the percentage would be approximately 10 per cent., making the allowance on the first year £500, equivalent to £5 per ton of product, and £4 10s. per ton of product in the second year. The charge would, of course, be very much smaller during the year towards the end of the period. Now to a new enterprise such a heavy charge for depreciation in the first year of production might have a very serious effect. My own view, after careful consideration and trial, is in favour of the fixed percentage.

But whatever scheme is adopted, depreciation must in my opinion be treated as a manufacturing expense. It should be charged direct to the product of the plant and treated as an essential part of the cost of manufacture.

In dealing with depreciation charge, however, it must be remembered that mathematical methods of depreciation cannot always be rigidly adhered to. Conditions change from year to year, and the state of trade may necessitate modifications.

INTEREST AND RENT.

Now with regard to interest and rent, I have often heard it claimed that if a works is freehold no rent should be charged. If money is not directly paid out of the manufacturing firm then there is nothing chargeable to cost of manufacture.

It is clear that the manufacturer who owns his land and plant has an advantage over one who has to rent his plant, as of course the latter must make a minimum profit to meet this charge. Rent may be defined as money paid to a capitalist for the use of land and buildings, while interest is the money paid for the use of capital. The opinion is held by some that where a firm has invested its own capital in land, building and plant, no part of the item of rent and interest is a logical part of the costs; that these are in effect in the nature of a division of profit.

Now the position of our managing director seems to me to be perfectly clear. If he is working on borrowed capital, or if he has to pay rent for land and buildings, the interest and rent are really debts which he must pay before he can make a profit. If his firm own their own land, plant, and equipment, it is equally obvious that if it cannot make a profit over and above the return it would obtain if it merely lent its capital to others and did not manufacture at all, it would be easier to lend the money to somebody else who would pay interest on it and take over all manufacturing risks and responsibilities. It is clear that there is a difference for costing purposes between interest on money used for investment or for manufacturing purposes, and interest on money borrowed for purely commercial purposes, such as extension of credit to customers, &c. Such interest has no relation to the cost of production.

Now in cost finding what we require is the cost of particular products, and as before, we have got to determine the charge for rent and interest on each product. If we return to the hypothetical plant we have mentioned previously, where the plant cost £5,000 to erect and equip, interest on this amount at an agreed rate will be charged to production. If for the moment we take interest at 5 per cent. per annum, then there

will be an annual charge on production as minimum return on the investments of £250 per annum. On an output of 100 tons per annum this amounts to £2 10s. per ton. If the figure of £5,000 allows for no provision for cost of site—if the land is rented, then the amount of rent to be paid will be charged direct, but if the land is also owned by the firm a reasonable rent charge can be fixed by allocation.

The cost we have now obtained will give our managing director all the information he requires. I have made no attempt to lay down any method of costing. It would be as impertinent to do so to a society such as yours, as it would be impossible for me to attempt. I have merely tried to deal with some of the aspects of costing that occur to one handling the completed costs and endeavouring to utilise them. What the cost accountant must remember is that whatever system be adopted it should provide just the results required, and it should not be encumbered with a mass of useless data.

ADVENT OF THE ACCOUNTANT IN INDUSTRY.

The advent of the accountant in business is one of the most significant features of modern times. The accountant is no longer regarded by the business man as merely an auditor, or as a cold blooded statistician. He is much more. Where he has the necessary soundness of judgment, efficiency of training and alertness of mind, he plays one of the most important parts in the industrial organism, and in no direction is his work more valuable than in the tackling of the problem of costs.

The business man requires the information which gives him the cost of each of his products, which shows him in sufficient detail how the money has been spent, which enables him to judge the technical efficiency of all processes, and to compare the working of similar processes, and from which he can judge the capabilities of his managers and staff.

With such information the man in control of a business is able to safeguard himself against failure, and is equipped for the planning of successful operations in the future.

Following an interesting discussion a hearty vote of thanks was accorded to the Lecturer, on the proposition of Mr. ALEXANDER HANNAH, F.S.A.A., seconded by Mr. A. W. MANSSUER, A.S.A.A.

Institute of Accountants in South Australia (INCORPORATED).

Annual Report.

In the report of the Council for the year ended December 31st, 1923, it is set forth that the roll of membership as on December 31st, 1923, contained the names of 127 members, viz, 34 Fellows and 93 Associates.

The usual examinations were held during April and October. Two out of six candidates were successful in the April examinations and two out of thirteen in the October section.

AFFILIATION WITH THE AUSTRALASIAN CORPORATION OF PUBLIC ACCOUNTANTS.

Owing to the absence from Australia of the President (Mr. Brentnall) and Mr. Yarwood, this matter remains in much the same condition as it was at the time of the last annual meeting. Now that these gentlemen have returned, and as the half-yearly meeting of the Corporation will be held in March, the Council hopes very shortly to have something definite to put before members.

At the annual meeting of the London Chamber of Commerce held on Wednesday, April 30th, Lord Kylsant, G.C.M.G., President, in the chair, Mr. Thomas Keens, M.P., of the firm of Messrs. Keens, Shay, Keens & Co., Incorporated Accountants, was elected one of the Honorary Auditors in the place of Mr. W. McIntosh Whyte, whose term of office had expired. Mr. George R. Freeman, of the firm of Messrs. Gane, Jackson, Jefferys & Freeman, Chartered Accountants, was re-elected for a further term of office.

Agricultural Cost Accounts.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. C. S. ORWIN, M.A.

Director of the University of Oxford Institute for Research in Agricultural Economics.

The chair was occupied by Sir JAMES MARTIN, J.P., F.S.A.A.

The CHAIRMAN, in opening the proceedings, said: The subject we have before us for consideration this evening is one of great moment, for upon the recognition of the value of costing as applied to agriculture depends very largely the future of one of our greatest and, in many respects, most important industries. At the Conference of Incorporated Accountants held at Cardiff last October our friend, Mr. J. M. Fells, gave us an illuminating paper on "Accountancy in relation to Cost and Market Prices." To-night, Mr. C. S. Orwin, M.A., Director of the University of Oxford Institute for Research in Agricultural Economics, has kindly made a journey to London in order to help us in our studies of this branch of our work, which must be dealt with in the great commercial centres as well as in the agricultural districts. I have much pleasure in offering a welcome to Mr. Orwin on your behalf.

Mr. ORWIN said: All of you are probably aware that I am not a professional accountant, and I am conscious of my temerity in addressing you on a branch of a subject which you have made your own. My own study is that of agricultural economics, and when I embarked upon it I found that the statistical data available for my work was very small. Certain information was to be had regarding the industry as a whole in the official statistics collected yearly since 1868 by the Ministry of Agriculture, but there was nothing which would aid in the study of farm management and the economics of agricultural production. The information lacking was that which can only be supplied by systematic recording on the farm, and particularly that which is afforded by scientific book-keeping. Agriculture has often been regarded as applied science; the growth of crops has been looked at as applied botany; the improvement of the soil as applied chemistry and physics; the care and breeding of live stock as applied physiology, and so on. But important as is the application of science to agriculture it is not sufficient by itself. Farming, like any other business, can only be judged by results; the application of chemistry may result in bigger crops, but the intelligent farmer will want to know what they cost. Thus it follows that farming depends for its success upon management, and management can only be examined and strengthened through the evidence afforded by accountancy.

Now the great majority of those engaged in agriculture have still to recognise this fact. Doubtless a considerable number of farmers keep some sort of financial accounts, though it is equally certain that an even greater number do not; but the analysis of costs of material and labour has rarely been undertaken in this country. The reason is two-fold. In the first place, farming was for many ages a self-sufficing business conducted to supply the cultivator with the requisites of life, and although its practice to-day resembles much more nearly that of the ordinary industrial concern, the change has been gradual, and there was never any particular moment at which the need for modern methods of control was clearly indicated. In the second place, farming in this country is still conducted almost exclusively under the system of one-man management. The throwing together of holdings has not proceeded to the point at which departmentalisation has been called for, or as perhaps it would be better to say, to the point at which the need for it has been recognised.

Thus, no demands have been made by agriculture upon your great profession, and the first thing I found when I came to look round for materials for my study of agricultural economics was that no farming costs were available; further, that no system of costing applicable to agriculture had been elaborated by anyone in this country. Looking further afield I found that in certain Continental countries, notably in Germany, Austria and Switzerland, considerable work had been done in this direction, but it was only partially serviceable because of the different nature of the problems

presented to investigators in those countries. Agriculture on the Continent is much more a peasant industry than in England, and the owner-occupier is also more in evidence. Consequently the problems of main interest to the Continental investigator were mostly of the nature of the determination of the rental value of the land held by peasant proprietors under varying systems of production; the labour income of the peasant family; the capitalisation of different systems of peasant farming; the extent of farm mortgages, and so forth, rather than the investigation of farming costs. I found, also, that the Americans had gone a long way, both in the direction of costing, as the term is understood in industry, and by a more extensive system of inquiry amongst farmers by which considerable results were obtained, less accurate no doubt, but entailing less labour and expense. Here again the application to English problems was limited by the fact that American agriculture, in most parts, is more clear-cut and less mixed than in this country. There is, for example, the wheat belt, where every farmer as far as the eye can reach, "and then some," is engaged in growing wheat; there is the district devoted entirely to "corn and hogs"; there is the cotton belt; and so on. Obviously in such a country costing is a different process from that in a country where the production on any one farm may include six kinds of grain, hay, roots, meat and milk; where one man may be producing corn and stock, whilst his neighbour, under precisely similar economic conditions, is turning out mainly green crops and dairy products. So you will see that I was driven to consider the elaboration of some system of costing suitable to our own conditions, and that is how I came to meddle, as a layman, in work which belongs rightly to your profession.

What I want to do this evening is to deal, first of all, with the principles upon which we cost in agriculture, and to tell you of the difficulties we have encountered and of the ways in which we have tried to solve them; and then to give you an idea of what kind of results we get, and of the way in which we use them.

The technical work involved in farm costing presents many puzzles, and although no doubt most of these have their counterparts in industrial costing, I rather think that in farming difficulties are encountered which are peculiar to this form of enterprise. However, I know nothing about industrial costing, and things which have proved difficulties to me are very likely things that you would regard as every day routine. Take, for example, the question of milk production. It should be a simple matter, apparently, to cost for milk. You have your herd of cows which have to be fed and milked and housed; you have your dairy utensils which have to be depreciated, and costing for milk should be a simple problem. Your cows represent your machines for turning out milk, but every year about one-fifth of these machines are sent to market in the form of beef. Is there in industry a case parallel to this, where the machinery of production is itself marketed from time to time? Milk production, again, involves the production of calves. Is the calf a by-product, the selling price of which can be applied to reduce the cost of the main product, or should the farmer regard himself as a producer of two articles, milk and calves, and attempt to divide the total cost between the two products? If so, how should the division of costs be made? I fancy there must be problems similar to this one in industrial costing, and I should like to know how they are dealt with. Take, again, the apparently simple case of horse-labour. It is necessary, of course, to know the cost of horse-labour before the cost of products involving its use can be ascertained. This must be quite a simple matter in urban industry, where the only questions involved are the wages of horsemen, the cost of forage, tradesmen's bills for shoeing, &c., and the depreciation on horses and harness. But the farmer grows his own forage, and you cannot grow forage without horse-labour. Thus, the farmer cannot ascertain the cost of his crops unless he knows the cost of his horse-labour, and he cannot know the cost of his horse-labour unless he knows the cost of his crops. How is that difficulty to be solved? Further, the forage grown for horses is very frequently composed of saleable commodities, hay and oats. In costing horse-labour how are these to be priced? At the cost to the farmer of growing them, or at the price they would realise if sold on the market?

I do not want to multiply these cases. I only mention the foregoing to show you that agriculture probably presents its

own special problems for solution, though, as I have already said, some of them may have parallels in industry of which I am not aware.

VALUATION OF ASSETS.

The first thing necessary in farm costing is to make a careful valuation of the live and dead stock, crops, tillages, &c. As regards live stock, machinery and implements, this is almost invariably done on the basis of the market prices prevailing on the day on which the valuation is made. A very little experience sufficed to show us that to follow this practice in costing would lead us into very serious error. Take the case of the farmer with a dozen work horses in the year 1914. They would cost him at that time about £40 per annum, each, for keep, and their market valuation would be, say, £40. Twelve months later, owing to the war, their market value was probably well over £100, but the cost of keep had not risen very much. So that a horse-labour account worked out for the year 1914-15 on this basis would indicate that the work of the farm had been performed by the horses for something less than nothing at all, although the farmer had, in point of fact, received no advantage from the rise in the market value of his horses. Later on, when the Army was selling off horses and their market price fell by about 75 per cent. in a few months, he would have to write his valuation down again, with the result that there would be an enormous inflation of the cost of horse-labour, and heavy losses would be shown in the products upon which that labour was employed. It is true, probably, that many of the farming losses of which so much has been heard in the past year or two represent no more than this writing down of stock previously written up, and also that much of the profit attributed to farming during the war, which farmers themselves often thought they were making, was really no more than a writing up of stock, which never came on the market.

In valuing farm livestock, therefore, our aim is to regard the various classes of animals as machines for producing something, and to get a figure as the value of each which represents its cost at the time when it reaches the producing stage. It may cost £40 to raise a young horse to the point at which it begins to work; it may cost £20 to raise a heifer until she produces her first calf. In such cases our principle is to value all horses at £40, and all cows at £20, so that the amount of the valuation is a question of numbers only. The subsequent expense of maintenance is not an addition to the cost of the animals, but represents the cost to the farmer of their produce, whether this be work done, as in the case of horses; milk and calves, as in the case of cattle; or lambs and wool, as in the case of sheep. The breeding or working animals on the land are valued, year by year, at a figure of so much per head, representing their cost to the farmer at their earliest productive stage. Animals purchased to replenish home-bred teams, herds and flocks must, of course, be valued in the first instance at the price paid, i.e., at their cost, but where this figure differs from the standard figure adopted for the herd or flock our practice is to adjust it to this figure over a period of years representing the probable effective life of the animal. Thus, a young cow bought for £50 and put into a herd valued at £20 per head might be depreciated by £5 annually, on the assumption that she will have an effective life in the herd of six years.

We value implements on the basis of cost less depreciation—depreciation being calculated on the probable life of the implement. Crops in the ground or in stack are valued at their cost up to the day on which the valuation is made, and it might be thought that this figure would be a simple matter, calculated from the recorded cost of rent, labour, seeds and fertilisers. Here again, however, farming presents a problem which I do not think can often arise in industry in that costs may be incurred in growing one crop the benefits of which may accrue, in a measure, to other crops. You probably know that even with careful manuring you cannot grow wheat year after year. You may maintain the fertility of the soil, but you cannot keep it clean, and the growth of weeds becomes so strong after a short time that wheat growing is impossible. To obviate this it is the practice of every farmer to grow what is called a cleaning crop at intervals of four or five years. It generally takes the form of a root crop, because roots are sown late in the spring, thus enabling the farmer to perform many acts of tillage in the dry spring weather which will kill the weed growth, and because roots are set out in wide lines,

so that it is possible, first with horse implements and later by manual labour, to cultivate between the rows all through the summer and kill the weeds. It will be obvious, therefore, that a great deal of the labour performed on a root crop, which may very likely amount to twice as much as that expended on a corn crop, is performed not for the benefit of the roots but for the benefit of all the crops which follow for the next four or five years, and it must be distributed over all these crops accordingly. Similarly, the duration of the action of certain manures exceeds that of the crop to which they are applied; lime, for example, may be effective for twelve years, and must be charged accordingly.

This is the way in which we make our valuation. In introducing a costing system most of the valuation figures must necessarily be estimates. In subsequent years they are merely taken from the books. The way is now clear to start the year's recording for cost purposes, and this consists mainly in the proper analysis and apportionment of

- (1) Labour.
- (2) Horse-labour.
- (3) Purchased Materials and Tradesmen's Bills.
- (4) Rent.
- (5) Establishment Charges.

LABOUR.

Manual labour is recorded in hours on time sheets designed to give the time spent in the various departments which are being costed. The time records run on through the year and are priced, once and for all, at the end of the year. A weekly apportionment of wages is impossible, because in farming so many of the men receive allowances, such as houses rent free, and payments in kind, such as milk, potatoes, firewood and so forth. Our practice is, therefore, to get the total cost of labour from a labour account debited with cash wages and perquisites of all kinds, and then to get an hourly rate at which to charge out the labour at the end of the year by dividing the total of the labour account by the total hours worked. Special payments for piece work on particular crops, or payments of so much per lamb to a shepherd, are exceptions, and these are charged out against the accounts concerned before the hour-rate is calculated.

HORSE LABOUR.

The cost of horse-labour is calculated similarly. The men's time-sheets are used to record the hours worked by horses in the various departments, and the cost of a horse hour is calculated at the end of the year from the total hours worked and the total cost of the horses. The difficulty of the vicious circle to which I have referred is got over by assuming a figure for the cost of the horse work involved in producing the hay and corn consumed by them.

PURCHASED MATERIALS AND TRADESMEN'S BILLS.

Seeds, fertilisers and feeding-stuffs may sometimes be charged direct against the crops or stock accounts for which they are purchased. More commonly they must be taken into stock, and a record kept of issues to various departments, which are priced and charged at the end of the year. Tradesmen's bills we analyse in the journal, and the component items are charged against the appropriate departments.

RENT.

The economists tell us that rent is not an element of cost, for it represents nothing more than the measure of the value of production due to variations in the situation and in the inherent capabilities of different soils. This theory of rent is interesting as an economic conception which in certain special cases may even have a practical application, but to the English farmer in most places it is merely an abstraction, and to give the term the peculiar limitations assigned to it by economists and then to say that rent does not enter into cost of production is to create a set of conditions having no existence in fact on most of the farms of this country. The rent paid by the farmer has little or nothing to do with the inherent capabilities of the soil except in particular cases which do not bulk large in the agriculture of the country as a whole, for it represents nothing more than a certain return to the originator of the enterprise, or his successors, on the cost incurred in bringing virgin soil into a condition precedent to the production of food and other agricultural produce. If we

imagine a tract of unreclaimed wild in an average agricultural district its rental value, both "economic" and actual, is virtually nil, and it can only be brought into a rent-earning condition by the application of capital.*

Rent paid by the farmer is the interest which the capitalist expects to get as an inducement to him to invest money in draining, enclosing, road-making, erection of houses and buildings, and in other works of reclamation and equipment necessary to turn virgin soil into farm lands. Thus, rent as paid by the farmer is an element in cost, and must be included in cost determinations. As to its distribution, our practice is to deduct from the total amount the rent of the farmhouse, charging this to establishment account, and the rent of the cottages allowed free of charge to the men, charging it to the labour account, and to distribute the balance over the land on an acreage basis. It should be remarked that this practice is not universally adopted by my friends, some of whom make shots at dividing rent according to the estimated productive qualities of the various fields—an impossible task, and one which ignores the true origin of rent, namely, interest on the equipment of the farm as one productive unit.

ESTABLISHMENT CHARGES.

The nature of these calls for no explanation to an audience such as this, and the only matter of interest connected with it is the basis of its distribution. We have tried various ways, and the one we find most satisfactory is the labour basis, the assumption being that the department which has incurred the greatest expenditure of labour of all kinds is the one that has benefited the most from establishment expenditure.

In the main, the records kept and apportionments made as described under the foregoing heads suffice to enable us to determine farming costs. There are, however, one or two considerations which arise in the process which call for comment. How are we to charge those products of the farm which are consumed on the farm in the production of the commodities marketed? What is the proper valuation of the raw materials grown on the farm—the hay, straw, roots, pasturage, &c.—produced for home consumption in the manufacture of meat and milk? Two practices are current, the one the cost of production, the other the estimated market value. As a matter of fact, the bulky feeding-stuffs usually produced and consumed at home rarely have any market value at all. A market value is one that can be realised in the market. Thus, corn, meat, milk and certain other commodities have clearly market value because they are always saleable, but if all the farmers in the country decided to sell their mangolds they would find that the market for mangolds is non-existent, and that the prices quoted in market reports represent a few deals to satisfy an infinitesimal demand. The same is true of straw, and, in a slightly less degree, of hay in normal times.

Even if the difficulty of fixing the market prices of certain products such as turnips, or even hay, be ignored, and if it be assumed that there be a free market in such things, a fuller consideration of what the farmer really does in feeding them to his stock will show how inapplicable such values are in his case. The market value of an article is the figure at which a willing buyer and a willing seller can agree to do business. The farmer who contends that he is justified in "selling" his roots or hay to his stock is selling them, in point of fact, to himself, and seeing that there is only one party to the transaction there can be no market, and consequently no market price. In the majority of cases each of these things is grown because the farmer has need of them in the production of the article or articles of food towards which his management is directed. If he could buy them more cheaply than he can grow them he would surely do so, but to regard himself as a merchant instead of as a manufacturer, and then to trade with one department of his farm against another is to involve himself in paper transactions which have no foundation in fact and which may lead to disastrous conclusions.

Another point for consideration is how to divide a total cost between two products turned out simultaneously by the same

expenditure of capital and labour? For example, how is the cost of a corn crop to be divided between the grain and the straw? Or how is the cost of a sheep to be divided between mutton and wool? We have experimented in various ways, none of which have proved entirely satisfactory, and our practice now is to charge the whole cost against the principal object of production, treating the secondary product as a by-product, and assigning no part of the cost to it. Thus, straw and wool are taken as having no cost, they are charged only with any labour cost in handling them, and the proceeds of any sales are applied to reduce the cost of the primary product, i.e., corn and mutton.

It is impossible in the time at my disposal to go into as much detail as I could wish in describing the processes of agricultural costing. I hope what I have said will be sufficient to give you a general notion of our procedure, and to provide you with powder and shot for the criticisms which must be forming in your more expert minds. For I want now to show you some of the results we get from our work and their application in the control of the farming industry. These results may conveniently be classed under two heads—

- (1) Industrial, and
- (2) Political.

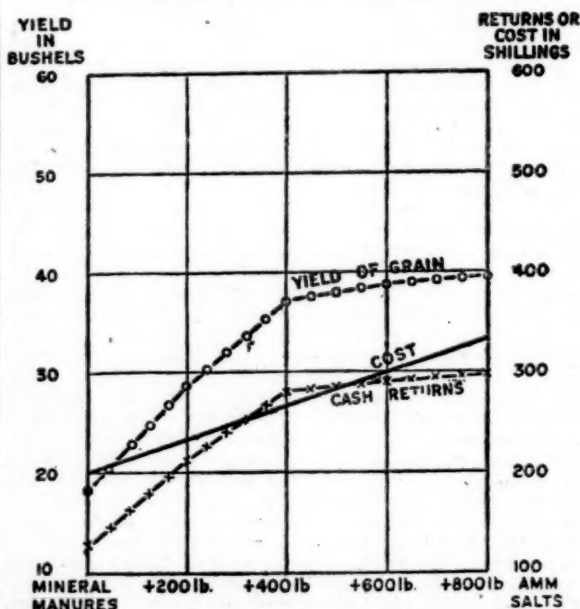
INDUSTRIAL USES OF COSTING.

In the first place, cost records, and other records collected in the processes of costing, are indispensable in the proper interpretation by the farmer of scientific experimental work. It is the business of the scientist, for example, to find out means of increasing production; it is the business of the agricultural economist, with the aid of costing investigations conducted by him, to find out the extent to which scientific discoveries can safely be applied to farming practice. Everybody knows that the application of sulphate of ammonia to the wheat crop increases its yield, but it does not follow that it will pay to dress the crop with this fertiliser, nor, if it does, that increasing applications of manure will produce uniformly increasing yields. Sir John Lawes found that, whereas small doses would produce a fairly big increase, the effect of augmenting the dose was to produce a quickly-diminishing rate of increase. That is to say, if 1 cwt. of sulphate of ammonia gave 1 quarter increase, it did not follow that 2 cwts. would give 2 quarters. The results of manuring wheat, as ascertained by him, were stated by his successor, Sir Daniel Hall, in graphic form, as below:—

GRAPH I.

SHOWING THE RELATION BETWEEN COST, YIELD AND CASH RETURNS WITH VARYING APPLICATIONS OF MANURE.

(Illustrating the Law of Diminishing Returns.)



* In fact, there is no need to exercise the imagination, for a case can be cited of virgin soil in the heart of England, surrounded by reclaimed land letting at some £2 per acre, and within reach of transport facilities and markets as good as any in the kingdom, which has been handed over for a term of years at a peppercorn rent to an enterprising individual who is prepared to sink capital in the work necessary to make it available for food production.

Here we see that although the cost of the crop goes uniformly up as the applications of fertiliser are increased, the additional yield of grain is on a steadily declining scale after a certain point, and the extent to which applications of manure are likely to be profitable depends upon the price of wheat. A great deal of harm can be done by an insistence on the ease by which crop increase can be realised, without due regard to the amount of increase which will be profitable.

Another use of cost records in practical farm management is through the evidence which they give to farmers on the subject of the general organisation of their business. To take as an example of this the organisation of the horse labour on the farm. It costs so much to keep a horse for the year, and on the great majority of farms the figure does not vary very much. But it does not follow that there is equally little variation in the cost of horse labour, for the cost of a day's work depends not only on the cost of keeping the horse, but on the number of days during which he is effectively employed. Allowing for Sundays and Christmas Day and for Saturday half-days, the maximum number of working days is 286 in the year, and every day worked by horses less than this number adds proportionately to the cost of the labour performed. Here is a graph showing the influence of the proportion of days worked to the maximum possible on the cost of labour per day in the case of seven farms:—

GRAPH II.

SHOWING THE INFLUENCE OF MANAGEMENT ON THE COST OF HORSE LABOUR.

Days worked.	Days idle. %	Cost per day worked.
	39.1	
	39.1	
	29.5	
	26.7	
	24.3	
	16.0	
	13.3	

It will be seen at a glance how seriously the cost mounts up in proportion as the idle days increase. This is one example, and many others could be given, of the way in which costing directs the attention of the farmer to weaknesses in his management. It may be that he has too many horses, in which case results such as these will make him consider their reduction. It may be that his system of cropping is such that he needs an abnormal equipment of horses at certain seasons of the year, in which case an example such as this will make him consider whether his system is so profitable as to make the idle horses at other seasons worth while, or whether he could not modify it in some way which would enable him to keep his horses more regularly employed.

To take, as a further example, the case of manual labour, the object of the system of farming should be to give employment to a regular staff of men at all seasons of the year. Few systems do this better than the ordinary four-course rotation and modifications of it, but many rotations make the farmer dependent to a large measure on casual seasonal labour. The results of costing show that dependence on casual seasonal labour has the effect of raising unit labour costs, and though systems of farming involving much seasonal labour are often justified on account of the usually profitable nature of the crops grown (as with potatoes), it may well be that in certain cases the relative costliness of the labour involved may lead the farmer to consider whether after all it gives him an adequate return for the extra working capital and trouble involved.

Again, costing gives the farmer fairly accurate information about the actual cost of his various products. Here are the

costs of producing milk on a farm catering for the London milk market last year:—

TABLE I.

COST OF MILK PRODUCTION.

Number in Herd, 40 cows and 1 bull.

Milk Yield, 28,252 gallons.

Item.	Total.	Per Cow.		Per Gallon.	
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
Concentrated foods ..	549 17 2	13 15 0			4.67
Roots and green crops ..	341 8 6	8 10 8.6			2.90
Grazing ..	160 0 0	4 0 0			1.36
Straw and chaff ..	60 0 0	1 10 0			.51
Implements, &c. ..	20 0 0	0 10 0			.17
Veterinary ..	15 0 0	0 7 6			.13
Labour ..	347 11 4	8 13 9.4			2.95
Establishment & general	55 0 0	1 7 6			.46
Total ..	£1,548 17 0	£38 14 6	£0 1 1.15		

It will be observed that costing not only gives the farmer his total cost per gallon, but it supplies him also with an analysis of that cost, and herein lies its value. It is not much use to a farmer to know that his milk costs him, say, 1d. per gallon more than the selling price. One of the difficulties of farming is that a man cannot readily scrap one product and turn over to another merely because it is not profitable. It happens sometimes that this must be done, as witness the case of farmers on the million acres of wheat land which was lost to the country in the 'eighties and 'nineties of last century. But changes such as these are slow in coming, and what the farmer wants, in the first instance, is an analysis of his total costs which he can consider, item by item, and compare with similar results from other farms with the object of finding out, if possible, where the loss is located. Figures for milk production published by Reading University College from time to time have shown extraordinary variations on different farms in the cost per gallon, for example, of the concentrated foods fed, or of the manual labour, and, if costing becomes more general in the future, it should be possible for farmers to find published details of other men's gallon-costs with which to compare their own, with the object of tracking down unsuspected weaknesses. The same purpose will be served in the case of costs of crops and of all other farm products.

Lastly, data collected in the process of costing ought to be of enormous value to the farmer through the work of the county agricultural advisers. At present these men, useful though they are, are severely handicapped in their work in that they have no means at their command for testing the managerial efficiency of the farmers who consult them. It does not help the farmer who is losing money owing to low prices to be advised to buy more manure, or to spend a large sum on spraying a potatoe crop which he thinks he is pretty sure to sell at a loss. What is wanted is the means for testing his farm management in its efficiency in every direction, with the object of finding out whether by better organisation money cannot be saved through a reduction of costs. One illustration of the sort of thing that should be possible has already been given in connection with the efficient use of horse-labour, and here is another example, derived from cost accounts, showing what should be expected from the reasonably efficient use of manual labour:—

TABLE II.

SHOWING THE AVERAGE LABOUR REQUIREMENTS OF FARM CROPS AND STOCKS.

ARABLE.	Land.		Man days per acre.
Cereal Crops:			
Winter Wheat	6.85
Winter Oats	7.58
Barley	7.13
Spring Wheat	6.58
Spring Oats	6.21
Beans	6.50
Peas	10.23

ARABLE (continued).

Root Crops:		Man days per acre.	
Turnips and Swedes (eaten off)	.. ..	8.31	
Mangolds	.. ..	16.73	
Potatoes	.. ..	33.80	
Carrots	.. ..	61.42	
Seeds:		Man days per acre.	
Mown	.. ..	2.18	
Grazed	.. ..	0.71	
GRASS.		Man days per head.	
Meadow Hay	.. ..	2.09	
Pasture	.. ..	0.09	
Live Stock.		Man days per head.	
Cows	.. ..	23.00	
Other Cattle	.. ..	7.13	
Pigs	.. ..	1.90	
Sheep (Arable Breeds)	.. ..	1.29	

These figures represent the normal utilisation of labour for crops and live stock on a series of farms in the East Riding of Yorkshire; if as much time and money had been spent on economic investigations during the past 25 years as has been devoted to scientific investigations, it should have been possible by now to equip the county agricultural advisers throughout England with details of this kind by which they could test the labour organisation of the individual farmer, and point out to him, as opportunity offered, the directions in which his neighbours were making better use of their men than he was doing. Other tests of a similar character can be devised, which would serve equally to trace those weaknesses in management which cannot be located by any means at present available, and which are often most surely responsible for the difference between profit and loss in farming. In a time of low prices when farmers are being sorely tried to make both ends meet, it is to economics as well as science that they must look for help to make their business efficient, and it is the neglected and not infrequently ridiculed practice of costing which provides the laboratory equipment of the agricultural economist.

POLITICAL USES OF COSTING.

If statistical data, such as that which costing provides, were available in any quantity it would be of very great value at the present time in framing national policy towards agriculture. For example, many people assert that what is wrong with agriculture is the comparative absence in this country of the small farmer. It is true, probably, that England contains a smaller proportion of family farmers than any other country in the world, certainly than any other country in Europe. The term "family farmer" is to be preferred to that of "smallholder," as in some of the prairie countries farmers who compare with smallholders in the economic organisation of their business are occupiers of fairly large tracts of land. The Canadian farmer of a quarter section, or the occupier of 640 acres in the Australian wheat belt is almost as independent of hired labour as the Danish or Flemish peasant who farms 10 to 30 acres. In England the smallholding tradition has been lost for 100 years, and alongside the development of our urban industrial system we have seen the growth of the capitalist and the hired labourer in farming. Many people maintain that this has resulted in economic weakness in agriculture. They point to the large rural population of Continental countries, they point to the high production per unit of land in these places, and they hold that no national agricultural policy can be sound which does not include as the principal plank in its construction the closer settlement of the land through the agency of smallholdings. So strongly was this view argued that the Statute Book has been enriched with the Smallholdings Act of 1908, resulting in the breaking up of big farms into little ones, and with the Act under which soldiers returning from the war have been provided with smallholdings during the last few years. If information had been available as to the economic position of large and small farmers, it is almost certain that these Acts to bring about the closer settlement of the land would have received more critical examination. Some figures collected by a colleague of mine in the course of investigations on costing may be

quoted as showing the influence of the size of the farm on the efficiency of its management, taking manual and horse labour as examples.

TABLE III.

SHOWING THE INFLUENCE OF THE SIZE OF THE FARM ON THE EFFICIENCY OF MANUAL AND HORSE LABOUR.

Size Group.	Persons employed per 100 acres.		Draught Horses per 100 acres.	
Acres.	Number.		Number.	
DISTRICT I.				
Under 50	7.1	.. ..	4.4
50-100	5.0	.. ..	3.7
100-150	4.0	.. ..	3.0
Over 150	2.4	.. ..	2.5
DISTRICT II.				
Under 50	7.1	.. ..	5.1
50-100	6.4	.. ..	3.7
100-150	4.2	.. ..	3.5
150-250	3.3	.. ..	2.5
Over 250	2.6	.. ..	2.1
DISTRICT III.				
Under 100	4.1	.. ..	5.3
100-300	3.0	.. ..	3.7
300-500	2.3	.. ..	2.6
500-700	2.5	.. ..	2.3
700-1,000	2.3	.. ..	2.3

In each of the three districts covered by the figures it will be noted that less men and less horses are required to do the work of the farm in proportion as its size increases. As regards men, machinery can be used on the larger farms to make manual labour more productive; as regards horses, more must be kept on the smaller farms to cope with the work during the rush season than are required for the normal cultivation of the holding.

But the land reformer will point with pleasure to the increased manual labour required for the small farm, and will talk about the importance of a large rural population. He will also inquire about the production from these farms, and will maintain that the small farm has a higher unit production than the large one. In most districts he is perfectly correct as to this, but a large production per unit of land is not necessarily the best measure of farming efficiency. Other figures can be given showing the influence of size of holding on the production per acre and the production per man, which, likewise, have emerged during costing work.

TABLE IV.

SHOWING THE INFLUENCE OF THE SIZE OF THE FARM ON PRODUCTION PER ACRE AND PRODUCTION PER MAN.

Size Group.	Production per acre.		Production per man.	
Acres.	£ s. d.		£ s. d.	
1-50	11 19 9	.. ..	168 19 0
50-100	9 19 2	.. ..	156 2 0
100-150	7 19 1	.. ..	189 0 0
150-250	7 5 8	.. ..	222 12 0
Over 250	8 4 4	.. ..	316 19 0

From Table III it has already appeared that employment varies inversely with the size of the farm; the middle column of Table IV shows that production also varies inversely with the size, and up to this point the advocate of the smallholding policy appears to be justified. However, it must be remembered that England has a higher standard of living for its working classes than any country in Europe, and no industrial system can be permanent which entails upon the worker a lower standard of life than that which he can obtain by other means. If we look at the last two columns together we see that whereas production per acre varies *inversely* with the size of the farm, production per man varies *directly* with it. In other words, the remuneration of the farm labourer can better be maintained by a system of capitalist farming of fairly large holdings worked by hired labour than by a system of smallholdings worked by the tenant and his family. There are, of course, social reasons for the creation of small farms in greater numbers, but the figures quoted show very clearly the errors into which people may be led through a

lack of economic data such as those which the work entailed in costing supplies, and it is contended that until such data is available on a much larger scale we shall never be safe from experiments in land legislation of the nature of the disastrous soldier-settlement scheme with which most people are familiar.

Another example of the use of costing as a guide to public policy towards the land may be given. There are not a few people—and amongst them some whose opinions on agricultural matters are entitled to respect—who urge the necessity of maintaining, or even increasing, our arable acreage. Like their friends, the advocates of smallholdings, they point, with every justification, to the higher scale of employment and of production on plough land, as contrasted with grass, but, like them, too, they lack data essential to a full consideration of these two alternatives. In the following table are given some financial comparisons on two farms in a southern county, occupied by the same tenant, one of them half arable and the other almost entirely grass:—

TABLE V.

FINANCIAL COMPARISON OF ARABLE AND GRASS FARMING.

	Year.	Capital.			Per acre. Labour.			Other Payments.		
		£	s.	d.	£	s.	d.	£	s.	d.
Farm A ..	1911-12	8	2	3	1	0	5	4	0	6
1,091 acres, ½ arable ..	1912-13	7	17	2	0	19	2	3	14	9
Farm B ..	1915-16	4	3	4	0	7	9	2	0	4
720 acres, ⅓ arable ..	1916-17	3	15	2	0	8	2	1	17	0

Reading the columns downwards, it will be seen that in spite of the rise in the cost of labour and of materials in the years to which the figures for the grass farm relate, capitalisation is about 50 per cent. less, labour about 66 per cent. less, and other payments about 50 per cent. less on the grass holding than on the one which is half of it under the plough. The figures for production and for profits are not given, as the influence of war-time prices destroys their comparative value, but they leave no doubt that the grass farm is less productive but more profitable as regards capital invested than the arable farm. Figures such as these point to the need for a general investigation over the country of the economics of arable and grass farming before it will be possible to maintain the plough policy position in connection with national agricultural policy, and here again the utility of records collected in the process of costing is demonstrated.

This concludes what I want to say to you to-night about what we are trying to do with agricultural costing at Oxford. Accountancy is not a popular study with farmers, but it supplies the acid test of efficiency and it is bound to play an increasingly important part in the development of the industry. I believe that your profession may find before long a new and growing outlet for its energies in this direction. Agriculture is our oldest and largest industry, and yet owing to the neglect of its basal science, book-keeping, there is no one of which the organisation has been so little studied or understood.

Discussion.

Mr. G. S. PITT, President of the Society of Incorporated Accountants and Auditors: I am quite sure that you all wish to join with me in thanking our Lecturer for his extraordinarily practical and brilliant paper. I happen myself to be an extremely ignorant amateur farmer, and, as such, I may say frankly to our Lecturer that I like his physique, I like his personality, but above all I like the remarkably plain manner in which he has established his facts. They are so simple indeed, that with my extremely small knowledge of farming I am able to grasp them. There is one subject, however, which he has, I think, passed by, and it is one that I am extremely interested in—the foundation upon which he is going to build his costs. I am afraid he will agree with me that that foundation in most farms to-day is lacking—I mean, of course, a sound system of financial accounts. I am sure, gentlemen, you will agree with me that no system of costing can be considered satisfactory unless that system is controlled by and in agreement with the financial books. You are well aware, of course, that our farmers are assessed for purposes of income

tax, either under Schedule B or under Schedule D. I sincerely wish myself that that option could be taken away from them, because I am quite certain that if they were all compelled to keep accounts and render proper balance-sheets under Schedule D, it would be of the very greatest assistance to the farmers themselves and possibly might be of some small benefit to the Revenue. Farming, as you know, is an extremely poor industry. It has to suffer extraordinarily severe competition, because England is the dumping ground of the world for excess agricultural products. Our poor farmers have to grow crops, and then they may find, owing to immense shipments of grain or other commodities to this country, that they are compelled to sell those crops at less than the cost of production. In such circumstances it seems to me that the farmer should be assisted by the Government to the greatest extent in his search for a true basis of economic accounts. I should like to ask the Lecturer if there is any means by which his department is able to assist the farmer, not only in laying the foundations, but also in carrying out his system of economics throughout the year. There is one little matter in regard to grass land as to which I should like to ask what methods he adopts, and that is this: In proportion to the extent to which you feed cake to cattle your land improves. How does he deal with that in his stocktaking year by year? Then there is another matter that, I think, is of considerable importance. Granted that the farmer has prepared his cost accounts, has he any facilities by means of which he can compare his costs with other costs? Because I think that only in that way can the farmer be enlightened as to whether he is really getting the best results out of his land—by comparing his costs with those of his neighbour. I am sure that this most interesting lecture will be read by us, when it is in print, with the greatest interest, and I can promise the Lecturer that I shall study it very closely indeed and try to reap a good deal of benefit from it for my amateur farming pursuits.

A STUDENT: I have often been told by farmers that the great trouble with farming costs is the weather. Weather affects the value of crops very considerably. I should like to know how the Lecturer would value animals, such as pedigree animals, bought at enhanced prices? The value of pedigree animals fluctuates considerably. For instance, you may buy a pedigree cow for 130 guineas, and the next day it may be worth only 30 guineas. Again, although farming costs undoubtedly supply information to the farmer, which enables him to regulate one department of farming, on the other hand he is often compelled to keep another department going even when he finds it does not pay. Root crops, as Mr. Orwin says, clean the ground, and if the farmer finds a root crop does not pay he still must keep it on. That seems to me to be a source of trouble—in fact, many farmers have remarked on that point, and it is only one amongst a number of practical points that have been mentioned. In the application of basic slag to pastures—supposing the farmer was unfortunate enough to apply it at the wrong time, when the ground was very dry and hard, and then rain came and washed it all away, how would you value the benefit of that basic slag?

Mr. ORWIN: Where is it washed to?

The STUDENT: If the slag has been applied at the wrong time, when the ground is very hard—say, after a drought—the rain comes and washes it all away.

Mr. ORWIN: Where to?

The STUDENT: Perhaps I should explain in more detail. It does not penetrate. I find it is a practice with a good many farmers to have their sons working for them practically for pocket money—especially the family farmers in the western country. Don't you think there ought to be some general standard of wages attached to that labour? I think it is rather an important point?

The CHAIRMAN: I hear that there is an old friend of mine in the hall—Sir James Cooper—who has had considerable experience of agriculture in Ireland. I am sure we should all like to hear him.

Sir JAMES A. COOPER, Incorporated Accountant: I am sorry that I was five minutes late in arriving this evening, and I missed the opening remarks of the Lecturer. I was exceedingly interested, however, in his very able lecture. Before the war I had a great deal of experience in connection

with the subject you are thrashing out to-night, and after fifteen years of it I should like to bear testimony to the accuracy of what the Lecturer has stated. With regard to milk production, that gave us a great deal of trouble. There was one point which I do not think the Lecturer touched on, though he may possibly have done so before I came in, and that is the value of the milk received per cow. He showed us a graph, indicating the cost of production from a given line, with all the various items worked out. I should like to have seen how he arrived at whether the cows were worth keeping or not. We used to keep a book which had the names of the cows (about 40 in number) written across the top, and the days of the month written down the side, and the dairymaid went round each morning and put down the quantity of milk, in gallons and pints, obtained from each cow. The figures when cross-totled gave us the total quantity of milk per day. We also got the production from each cow from the total of each column, and at the end of the year we could see whether any particular cow was worth keeping or not. I may mention in passing that my ambition to keep still better accounts led me, unfortunately, to alter the rough-and-ready system of gallons and pints and to endeavour to get at complete records by pounds weight. I imported a very efficient theoretical expert to keep the books, but, unfortunately, owing to its being so complicated, the whole thing got into such a mess that in six months we had to scrap the lot and return to quantities. I am only telling you that to show you what we were up against in the West of Ireland, ten miles from the nearest railway station, on a farm of 2,000 acres, but with excellent clerical staff. I am sure the Lecturer will agree with me that, in any system of dairying on a large scale, the value of the milk per cow is important. From the costing point of view, I think it is fortunate that you have not got too many small holdings in this country. In Ireland the small farmer, with his limited knowledge and facilities, cannot keep cost accounts at all. He cannot arrive at the cost of growing flax, for instance. I remember, when I was engaged in selling Government wool, hearing the expression "by-product" applied to wool. I do not think the Government, who had been buying it and spending millions of pounds on it, would consider it a by-product. In England it is largely a by-product, but out in Australia, where 60 per cent. of all the merino wool is produced, it is by no means a by-product. May I say just one final word? I am not sure that it arises out of your subject for to-night. I think the cost of distribution has very largely killed the farmer—the want of better facilities for distribution. Take milk, for instance. The Danes, I think, are conveying milk now in large glass-lined motor trucks, and I believe they are cutting down the cost of distributing the milk very considerably. In the West of Ireland we grew flowers, which we looked upon as a by-product. We sold our flowers in the markets of Belfast, Dublin, Glasgow and Liverpool, but we were squeezed out by freights from Liverpool and Glasgow. We grew 25 acres of daffodils, and we sold our bulbs—where do you think? Largely in Holland—(laughter)—and Holland sold them back again to England. We were, however, cut out of the business of flower growing by the cost of distribution. Of course, we were a long way from railway facilities, but, allowing for that, we had the most up-to-date organisation and everything ready to hand. It seems to me that the cost of distribution is a matter which might be tacked on to your lecture to-night on agricultural costs.

Mr. J. M. Fells, C.B.E., Incorporated Accountant: It has been rather interesting this evening to observe that Mr. Orwin appears here as an amateur accountant and my friend Mr. Pitt appears here as an amateur agriculturist. Either of those gentlemen, in whatever capacity they choose to act, would give good evidence of their ability to deal with any subject they took up. I am sure we can hardly agree with Mr. Orwin in his self-deprecatory remark as to his being an amateur accountant. I have had the pleasure of watching the work he has done in connection with agricultural cost accounts for some ten or twelve years, and I think he will agree with me that agricultural cost accounting, like all other cost accounting, is to a certain extent as yet only in its infancy, and much remains to be done in the development of scientific cost accounting. Much has been done, but more still remains to be done. I would like Mr. Orwin to consider the attitude he has adopted, for instance, with regard to rent.

It is quite true that economists have perhaps taken too wide an issue in stating that rent does not enter at all into cost of production. Some rent probably does. I quite agree with Mr. Orwin that that portion of rent which represents interest on capital, equipment, is properly, and very properly, a matter which should be brought into the ascertainment of the cost of production; but whether the extra rent, if one may so term it, that arises from fertility of soil or site position should enter into cost of production is another matter. Unless that element is separated, I do not think you can obtain a common denominator whereby you can make comparisons with regard to costs. Some agricultural lands do command higher rents than others, because of their contiguity to markets and many other facilities they possess. Those facilities enter into the nature of economic rent, and, as such, should not enter into the cost of production. On the other hand, under certain circumstances they might enter, as my friend Sir James Cooper says, into the cost of distribution. In the ascertainment of the cost of distribution I think you have the great key to the relief of the farmer from the many difficulties which he suffers with regard to getting his product to market and prevents his obtaining the full result that he should obtain, having regard to the prices his product realises in the market. There are two or three technical points on which I would like Mr. Orwin to enlighten us. I understood him to say that the labour apportionment or allocation was only dealt with once a year, and that the total amount spent on labour and its ancillaries—such as cottages, grants by way of food and so on—all enter into labour; but he did not tell us whether the total expenditure on labour was divided by the total number of hours worked during the year—thus obtaining the common or man hour rate per hour—or whether there is any differentiation between different classes of labour. It may be that in agriculture there are not these demarcations of wage that you have in other industries. I am not quite certain how far the adoption of a common "pool" for labour costs is likely to bring out the most accurate results. Then a further point that I would be glad if he would give us some information upon it as to the treatment for accounting purposes of the manure and other farm refuse; and, if the manure is used on the land, whether it is charged out on the farm account at all, and, if so, at what rate? With regard to the question of the joint costs of mutton and wool, that is a subject which, as Sir James Cooper says, would probably occupy a long time to go into thoroughly. It seems to me that if, on sheep runs, in order to obtain special qualities of wool, you do feed your sheep more richly, perhaps, than you otherwise would, such extra cost might properly form a part of the cost of producing the wool. But the idea that you should simply credit the cost of producing the mutton with the price realised by the wool seems to me to be unfair both to the mutton and to the wool, and I sincerely hope, in the future work which lies before him, Mr. Orwin will devise some method by which those joint costs in agriculture will be more accurately obtained.

Mr. WALTER HOLMAN, Incorporated Accountant: It is my duty and my privilege to move a very hearty vote of thanks to the Lecturer for his interesting and illuminating lecture on this important subject. Mr. Orwin referred to some of the special difficulties attaching to costing as applied to the agricultural industry, but he did not (probably owing to his modesty) refer to what, I imagine, is one of the greatest difficulties—the apparent incongruity between outside work, such as farm work, and clerical work. The farmer may be interested in his statistics, but his outside work does not particularly fit him nor give him the incentive to fit himself for statistical work. I think the difficulty must be even greater with the people from whom ultimately he must get his data. We all know the difficulties which one often has in dealing with cost accounts, in elucidating such important documents as wages-sheets; and where you are dealing with an industry in which the man-power is very largely illiterate, the difficulty of getting the required data for forming agricultural cost accounts must be much greater than in any other industry. This gives us some idea of the amount of labour, energy and patience which must have been exercised by the Lecturer, and those working under him, in getting out the valuable results which he has given us to-night. I should like to move a very hearty vote of thanks to Mr. Orwin for his exceedingly valuable paper.

Mr. W. D. MENZIES: I have very great pleasure in seconding that. I am sure all of us younger members will be very much stimulated to wait and watch for every opportunity, which comes to us, of increasing our own efficiency in dealing with agricultural costs. We shall feel more grateful to the Lecturer when we have an opportunity of ruminating over the printed lecture.

The vote of thanks was carried with acclamation.

Mr. Orwin's Reply.

Mr. C. S. ORWIN: I thank you very much indeed for the kind interest you have shown in this paper, and I particularly thank the mover and seconder of the vote of thanks, and you all, for the way in which you received it. I appreciate it very much indeed, because I was very conscious of my temerity in coming here and meeting you to-night, knowing that you are on your own ground and I am not on my ground. I should like to refer to one or two points that have been raised. Mr. Pitt emphasised what, I thought, was the most important point I had omitted, namely, the necessity of linking up the costing with the financial accounts. I can reassure him and you by saying that we always do it. As to the assistance to farmers in this matter, it is at present very limited. The work we do was for a long time the only work done in the country on the subject, but within the last few months the Ministry of Agriculture have brought in a tentative scheme by way of trying to bring home to farmers the economic teaching which can be extracted from work of this kind. They are trying to interest them more in it, and to get them to recognise the value that it might be to them. As regards the valuation of the manurial residues—Mr. Pitt says that when he fed his cattle with cake, the land got better and better. Well, we adopt a scale of figures for valuing that improvement, which has been worked out by agricultural chemists—scales showing that so much linseed meal, so much cake, &c., add so much value to the land. We adopt those figures in our accounts for appraising that item. Now, I do not think I found myself quite in sympathy with the speaker who followed Mr. Pitt, because it struck me that he had made up his mind that there was nothing to be done with the keeping of accounts of any kind on a farm. For example, take the question of basic slag. Anybody who has used basic slag knows that the one thing you want after using it is heavy rain. The gentleman might have chosen a substance that would have suited his case better! Basic slag is inoperative until heavy rain has fallen and washed it into the ground—washed it away, as he said. We want that to happen, and until it has happened it is useless. The question of pedigree stock was a thing that troubled us a great deal. As he said, you may buy an animal for 130 guineas and the next day it may be worth only 30 guineas. When that question arose, I applied to my kind friend and adviser, Mr. Fells, and, acting on the suggestions he made, I think we arrived at what you will regard as a satisfactory solution. We value the animal first, at its class figure. Supposing it were a cow taken at, say, £20; the difference between the £20 and the actual purchase figure would be taken into a pedigree account. We then write this pedigree account down every year according to the fluctuation in value and to the life of the cow. Thus we actually treat the price as including two values. I think Mr. Fells likened the position somewhat to that of a goodwill account. Sir James Cooper referred to the need for keeping track of individual performances with cows. I am glad he mentioned that, because we regard it as of vital importance. You must always study the performances of individual cows, and eliminate the bad ones; it is even more necessary than seeing how you can reduce labour, feeding stuffs, or any other expense. The first thing is to eliminate the cows that do not come up to a certain standard of production, and that is done in the way Sir James Cooper says—by recording individual production morning and evening. As regards the question of rent, I must admit that Mr. Fells dealt with that better than I did. It has been rather a red rag to me, this Ricardian theory, and I am inclined to sweep the whole thing on one side and charge all rent. I am quite certain that what Mr. Fells told you much more represents the truth than what I told you, but there are some cases in which I am more correct than he is. We get exceptional cases, and I suspect that they are more numerous than I like them to be. On the question of

the allocation of labour—of course, on a farm, difference in wages is very largely accounted for by difference in hours of work, and it does not affect the accuracy of your one man-hour basis. Where a lot of women or boys are employed, we have a flat rate for men and a flat rate for boys and women. The hours worked are grouped under the heads "men," "women" and "boys," and the wages account is analysed in three columns. As regards special payments, like piecework on a particular crop, or payment to a shepherd for the number of lambs he raises, those can be dealt with directly and charged against the crop, or the live stock, as the case may be. I quite agree with what Mr. Holman says about farmers being outdoor men and not easily made to realise or care about statistics of any kind. I remember a picture which a friend sent me once of an old farmer sitting up at night with a candle stuck in a bottle and poring over a ledger, underneath it was written "Here be debit, here be credit, but where do I put the 'laters'?" (Laughter.)

On the motion of Miss Singleton, a hearty vote of thanks was accorded to the chairman for presiding.

Changes and Removals.

Messrs. Alban & Lamb, Incorporated Accountants, Cardiff and Newport, are taking Mr. J. D. R. Jones, A.S.A.A., and Mr. P. A. Hayes, A.S.A.A., into partnership as from May 1st, 1924. The firm will continue to practise under the style of Alban & Lamb at 84, Queen Street, Cardiff, and Central Chambers, Newport, Mon.

Mr. J. W. Armstrong, F.S.A.A., has taken into partnership Mr. H. J. Armstrong, A.S.A.A., and Mr. J. S. Armstrong, A.C.A., and the practice will be carried on under the name of J. W. Armstrong & Sons, at 2, Collingwood Street, Newcastle-on-Tyne.

Mr. M. E. Askwith, A.S.A.A., A.C.A., has been admitted into partnership by Messrs. Franklin, Wild & Co., Chartered Accountants, of Orient House, 42/5, New Broad Street, London, E.C.

Mr. S. R. Barnes, F.S.A.A., of Pretoria, South Africa, has removed from 55, Tudor Chambers to Somerset House.

Mr. F. W. Blatchford, A.S.A.A., has commenced public practice at 32, Riebeeck Street, Cape Town, South Africa.

Mr. E. R. Harrison, Incorporated Accountant, has taken into partnership Mr. Leslie Lewis, Incorporated Accountant, and the practice will be continued under the name of Ransom Harrison & Lewis at 54, Bank Street, Sheffield.

Mr. P. Mannadiar, M.A., A.S.A.A., has been admitted a partner in the firm of Messrs. S. K. Day & Co., Incorporated Accountants, of Calcutta, and will act as resident partner at a new branch in Lahore.

Messrs. W. G. Rayner & Co., Incorporated Accountants, announce that the partnership has been dissolved. Mr. W. A. Rayner, F.S.A.A., will continue at 12/14, Arthur Street, London Bridge, London, E.C., and practise as W. A. Rayner and Co., and Mr. S. F. Stephens, F.S.A.A., will practise as Stanley F. Stephens & Co., at New Hibernia Chambers, London Bridge, London, S.E.

Mr. H. Salter, A.S.A.A., has entered into partnership with Mr. T. C. Whittaker, A.S.A.A. The practice will in future be carried on in the name of Whittaker, Salter & Co., Incorporated Accountants, at Garrick Chambers, 51, Fountain Street, Manchester.

DEFALCATIONS.*

By F. W. Lafrentz, C.P.A. (New York), of the firm of F. W. Lafrentz & Co., President of the American Surety Company.

The modern banking, manufacturing and distributing systems have been matters of slow growth. As late as the beginning of the nineteenth century the unit of organisation in each line was very small. The agent abroad, when one was needed, was apt to be a man conducting his own business independently and compensated by a commission which was—in the case of a sales agent—frequently on a *del credere* basis. Those houses which made a business of acting as agents had many of them been long established. Their continuity was maintained for generations, and the relationship of agent for any house once established was rarely disturbed. Banks operated through correspondent banks rather than through branches, and banks were much more interested in exchange and collections than in deposits and discounts. Under this system of organisation the personnel of any particular house was not large and each individual was known personally to the master. The master generally had a strong personal interest in each member of the staff, studied him, used him, and advanced him as much as possible, for advancement for any member of the staff meant increased business and increased profit for the master. Cash and securities were to a large extent under the sole control of the master or, at most, of a single confidential clerk. The business was supervised by the master in person, and good or bad conduct met with prompt reward or punishment. Each man engaged in the business was an apprentice, a fellowcraft, or a master—and master meant master. When a workman had progressed to the point where he was entitled to be known as a master workman he started his own business. This was true whether the business was that of manufacturing, distributing or banking. The apprentice was one who was studying the business and in the meantime furnishing as much and as valuable service to the master as was consistent with that purpose. He usually lived in the master's household and was considered one of his family, was compensated by board and lodging, and at the end of his apprenticeship was furnished with certain clothing, his kit of tools or other equipment, a small sum of money and a certificate that he had completed his apprenticeship. Ordinarily he was then registered with the guild as a fellowcraft or journeyman, and travelled seeking employment where he could find it. He was rarely content to settle down for any length of time, for by travel and service under several masters he hoped to secure a thorough knowledge of the trade or business and to fit himself to become a master workman. When that time came he either started a new business in a small way on his own account or was accepted as a partner in an established business. In time, if successful, he retired to make way for the next generation.

All were in close touch with each other. The chances of defalcation were reduced to the minimum. Each was more or less interested in the other, and industrial difficulties were rare. Dishonesty in a trusted employee, while not unknown, was rare and apt to be soon discovered. When discovered, punishment was sure and swift, and in most cases during the middle ages it was death. With the development of modern machinery and of the modern business organisation all this changed. Economic conditions in most lines would not permit a small organisation to compete successfully. Large capital became necessary—larger than could be found in the hands of single individuals. As a multitude of owners did not make an effective executive, the corporation developed. This produced a new class of people who were interjected between the owners and the workers, and they then took the place to a certain extent of the masters. They have been developed to a very high degree of efficiency and are known as executives. The motives governing them, however, were not at all times the same as those governing the masters. When master and owner were synonymous and the personnel was small, any neglect of the personnel was reflected in the results of the business, with the result that either the individual who was a misfit was dropped, or the master

took upon himself the task of changing him so as to make him fit. So long as the organisation of business was made up of small units, the dropping of an individual by one master did him but little harm, for there were many other masters, and he would, quite likely, fit in somewhere else. The executives operating large units found themselves under the primary necessity of producing dividends or of showing good cause for not doing so, as owners had no object in investing capital in a business except to realise dividends either at once or prospectively. Unless executives could produce these they were useless and were dismissed from the service. As always happens, a primary necessity is met, and executives did produce dividends, but in many cases without reference to the effect of overwork or of unsatisfactory or unsafe working conditions upon the employees. So long as this continued unrestrained it provoked rebellion, dishonesty, disloyalty and what not on the part of the employees, for abuse is always compensated in that manner. They knew they were being imposed upon, and knew further that when—through disease or industrial or other accident—they became unfit, they would most likely be thrown aside to sink or swim. In case of premature death their families were frequently left in want. The condition this produced in England has been well set forth by Charles Kingsley in some of his stories. Fortunately all this has changed in the course of time; owners and executives have learned that they are their brother's keeper. They have also learned that it is not only inhumane but economic waste to neglect employees. They have learned that one who works with his hands or with his brain will produce more in eight hours a day than he will in ten or twelve, and will retain his health and efficiency longer.

Everywhere we find trained personnel managers, welfare workers, employees' committees and many other means for giving voice to the needs and wishes of the employees and bringing them to the notice of the executive, and when necessary to the notice of the owner, thus bringing employer and employee into closer connection. Every competent executive feels that his object in life is not merely to use the people employed under his direction to the best advantage of the owner, but so to use them as to protect them against their frailties, to develop them to the best of his ability and, should the relationship of employment at any time cease, to send them away better equipped to live their lives than they were when they came under his direction. This is the inspiration of the capable executive, for he knows that his work is of a class inferior to none in its importance and in the value of its results to the human material which comes under his direction.

Owners and executives should do everything in their power to create conditions which will discourage any kind of dishonesty and will lead to prompt discovery of any such act which may occur. This lesson has been very well learned, and business organisations of the better class have been arranging so as to reduce to as near a vanishing point as possible the opportunity for undetected dishonesty.

Obviously there will remain some opportunity for dishonesty, and sometimes the necessarily small compensation paid those of limited capacity adds to the temptation. The comradeship resulting from common employment makes immediate supervising employees and associates trustful; the ordinary precautions are often neglected. When dishonesty occurs, not only does the owner suffer, but the dishonest employee has lost his character and has thus lost his opportunity for a successful life and drops to the class of drifters, of no value to himself nor to the community. The wrong thus done the employee we should feel is even more serious than the harm done the owner whose property has been diverted.

However, after all is said and done, the one thing that impresses me in my experience as a surety man is the high average of honesty on the part of men of all stations, and the thing that impresses me next is that a large number of defalcations which occur would never occur if proper accounting systems were used and regular audits maintained. A few instances which have come to my attention recently will, I am sure, interest the readers of this article, and bear out what has just been said.

A young woman in the employ of a telegraph company caused a loss of about \$450 in the following circumstances:

* From the *Journal of Accountancy*, New York, April, 1924.

In one office she concealed cash receipts and finally overpaid herself on account of salary \$30. Being transferred to another office, she concealed cash receipts in several instances and kept money received for transfer by telegraph. On being discovered and dismissed, she calmly proceeded to another city, took another name, and was employed by the same employer at two different places, and stole in a very short time over \$3,000 more, apparently using similar methods. The auditing department of the company ultimately traced the transactions resulting in the loss, of course.

A woman serving as assistant book-keeper for a coal company was found short in her accounts about \$80,000. She expended the money in the purchase of securities, of jewellery and of an automobile. The salvage recovery was very considerable in the circumstances. The methods employed by this person to secure the funds of her employer were bold but simple. She drew cheques to the order of fictitious persons for fictitious bills for supplies, presenting the cheques so drawn to the book-keeper, who presented them to the treasurer, with his approval. The treasurer affixed his signature and returned them to the defaulter to be forwarded to the payees. She then forged the endorsements thereon and collected them either through her own bank account or placed them in the cash drawer of the employer, withdrawing an equal amount in cash in lieu thereof. There were approximately 250 separate items of theft in this case, and although cheques bore the endorsement of the defaulter, as she deposited them to her own credit, the defalcation was not discovered for over a year. How a defalcation of this amount, made up of so many items, could have accumulated before discovery thereof is a mystery. The bank that accepted them for deposit was certainly negligent, and whoever was charged with the reconciliation of the bank account of the company certainly failed to scrutinise them, for it seems to me that the most elementary examination should have revealed the defalcation.

A certain man was agent for four coal companies and vice-president of a bank. These companies were large. For some months at least this person was kiting cheques between the several companies. He deposited their cheques to his own credit. Then, as vice-president of the bank, he made false returns of the bank balances, until he succeeded in converting to his own use upwards of \$107,000. Then discovery came. In the meantime the bulk of the proceeds had been dissipated, and the loss to his employers was far in excess of the suretyship carried. Even a casual inspection of the cancelled cheques returned to any one of the coal companies should have led to discovery of the defalcation. But the auditing departments failed to function properly.

The president of a bank in one of the Rocky Mountain States also headed a real estate company which he controlled. This real estate company needed funds for development, so for a period of more than a year, using his own bank and another, he filched \$55,000, covering his tracks by committing forgery and by false entries in the books of the bank.

In the State of Indiana a successful business man commanding the respect of all who knew him, as the crowning event of his life organised a national bank, a savings bank and a trust company. Upon his retirement his sons and son-in-law succeeded to the management of these three institutions. Becoming interested in oil promotions they found themselves in need of funds and proceeded to make improper loans to themselves, concealing these loans from the directors and the bank examiners by transferring them from one institution to another as necessity demanded. As the loans could not be realised ultimately the banks were forced to close their doors. Not until then was the true condition disclosed.

In a western state a father, mother and son operated a bank. The son proved unfaithful to his trust. The bank failed because of certain manipulations of his which resulted in the loss of about \$70,000 to the institution. The case is still under investigation, and the real facts of the case have not as yet been ascertained.

The cashier of a bank in North-eastern Pennsylvania became party to the kiting of a cheque by a depositor in the year 1919. Additional cheques were kited by the same person thereafter, and in October, 1923, a loss amounting to

upwards of \$97,000 was created. The suretyship bond was only \$10,000, and the heavy unsecured loss to the bank caused its failure. How these frauds went undetected for so long a time when so much manipulation had to be resorted to is beyond me.

In the latter part of last year a young woman in the employ of a small bank drew a cheque for \$2,800, signing the name of a depositor in the bank there and making it payable to a fictitious person. She then introduced herself at another bank, opened an account there and deposited this cheque to her credit. By drawing three cheques against it she exhausted the amount. The fraudulent cheque passed through the exchanges and was paid. Having successfully gone through with this transaction, she indulged in similar ones during the succeeding months, until the depositor sought information regarding entries against his balance, no vouchers covering them having come to him. Inasmuch as the evidence had been destroyed, it was most difficult to get at the bottom of the matter. Ultimately clever detective work disclosed the identity of the culprit, the young woman confessed and her friends made good the loss. In observing this case one wonders: first, how a forgery could so easily pass the teller of the bank on which the cheque was drawn; and, second, how the young woman could succeed so readily in opening a bank account at another bank without proper introduction and identification.

Because we served notice on an employee of one of the largest banking institutions of the north-west of our intention to retire from our suretyship in his behalf, he resigned his position, went on a hunting trip, and returned to his domicile. In the interim a defalcation in excess of \$150,000, for which he appeared to be responsible, was discovered. We were notified in due course, and as the loss was so very large the president of the bank came to see me personally about it. I asked him if he felt certain that all the loss was created during the currency of our bond, which was about two years. He was positive that such was the case, for he felt that it would be impossible for anyone in his institution to cover a shortage for any considerable period of time. I advised him to state the amount of loss as of the date of discovery, and with this *prima facie* proof in hand caused an examination to be made of the books and accounts. We succeeded in finding about \$75,000 of the total to have been occasioned prior to the date of our obligation of suretyship. That much could be traced to the satisfaction of the claimant bank. No doubt the sum was larger than that, but vouchers had been returned, statements and other evidence destroyed for one reason or another, and we were obliged to let it go at that in face of the assertion of the culprit that he had taken \$1,000 a month for more than twelve years. He was in charge of foreign accounts and manipulated them with ease.

These instances might be added to indefinitely, for never in our history have so many defalcations come to our notice as during the last few years. And some of them are really staggering. I call to mind, as I am bringing this article to a close, the failure of four national banks within the last two years, due to the dishonesty of one or more of their officers. In one case the sum total embezzled was \$500,000; in another it was \$600,000; in another it was \$800,000; and in another it was \$1,600,000. In the last instance the president of the bank took in addition all readily convertible securities contained in the safety deposit boxes rented by the bank to customers. He obtained access to these by means of duplicate keys.

Almost every loss resulting from dishonesty on the part of the principal on fidelity bonds brought to my attention is the result of some omission in accounting supervision which is perfectly apparent after the loss occurs. Of course no system, however perfect, is an absolute shield against a designing defaulter. There is always a weak spot somewhere, but a proper system of accounts usually makes attempts of the kind easy of detection. Public accountants ought to be employed not only to install accounting systems adaptable to the particular businesses, which insure the introduction at the same time of proper safeguards, but also to audit the accounts regularly, for they, from the nature of their calling, are taught to take nothing for granted and to insist on receiving information regarding that which is obscure or out of the ordinary.

The Chartered Institute of Secretaries.

Country Conference.

At the invitation of the Manchester and District Branch, a conference will be held in Manchester from Tuesday evening, May 20th, to Thursday, May 22nd. The headquarters will be at the Midland Hotel, and the programme will be as follows:—

On Tuesday, May 20th, at 7.45 p.m., the President of the Branch (Sir Arthur Haworth, Bart.) and the President of the Institute will welcome the members at the Midland Hotel, where the small ball-room suite has been reserved for the occasion.

On Wednesday, May 21st, the business of the conference will be opened by the President of the Institute (Mr. A. F. Harrison) at 10 a.m. at the Midland Hotel. Following this a paper on "Cost Accounting" will be read by Mr. C. R. Heathcock, chairman of the Birmingham and District Branch and member of the Institute Council.

In the afternoon there will be an official reception by the Lord Mayor of Manchester, at the Town Hall, to members of the conference and their ladies.

In the evening, at 7 p.m., the conference dinner will take place in the banqueting hall of the Midland Hotel, when the President of the Institute will preside, and the company will include distinguished local official guests.

On Thursday, May 22nd, the conference will resume at 10 a.m. at the Midland Hotel with a paper on "Cable Communications and How to Utilise them to the best Advantage" by Mr. Edward Wilshaw, member of the Institute Council and secretary of the Eastern Telegraph Company, Limited.

In the afternoon the conference members and their ladies will be given the opportunity of inspecting the docks and a portion of the waterway of the Ship Canal through the kindness of the Manchester Ship Canal Company, who are providing a launch for the purpose.

A local committee of ladies will conduct the lady visitors on Wednesday morning and Thursday morning to Chetham's Hospital and to Rylands Library, which are both places of exceptional interest, as well as to other points of interest if time permits.

QUESTION IN PARLIAMENT.

Audit of Approved Societies.

Mr. BLACK asked the Minister of Health whether, seeing that 35 approved societies and branches failed to produce their books for audit so that certification thereof could be given by the auditors at December 31st, 1923, and that 58 in like manner were in default at March 31st, 1924, he will consider the provision of an automatic regulation compelling the production of the books within a specified period under a substantial penalty in case of default?

Mr. WHEATLEY: The Report for the year 1923 just issued by the National Insurance Audit Department shows that the stringent procedure which was adopted by the Department in 1921 has resulted in a marked improvement in the delays in production of books for audit. Continued failure to produce books is regarded as maladministration, and no less than 54 societies or branches have been closed down, and their engagements transferred, on account wholly or partly of such failure. The hon. Member will appreciate that the figures he gives are to be compared with a total of 9,226 societies and branches subject to audit. A regulation such as the hon. Member suggests would require legislation, and it is doubtful if it would be more effective than the administrative action now taken, but the matter will doubtless be considered by the forthcoming Royal Commission on National Health Insurance.

At the United Grand Lodge of English Freemasons on Wednesday, April 30th, Mr. Major James Faulks, M.A., Immediate Past Master of the Incorporated Accountants' Lodge, was appointed by the M.W. the Grand Master a Past Assistant Grand Director of Ceremonies.

South Wales and Monmouthshire District Society of Incorporated Accountants.

Evolution of the Industrial Organiser.

Resumé of a lecture delivered to Cardiff Students by Mr. W. J. Back. The chair was occupied by Mr. D. H. Husband, A.S.A.A.

The difference between a civilised and an uncivilised community consists in the fact that in the latter each man is a self-sufficing unit, whilst in the former the community is organised as a whole with a view to the greatest possible production. Between the two poles lies the progressive development of the self-sufficing individual into the self-sufficing group, with the continuous enlargement of the group until it embraces the whole community. Each individual is now engaged upon a fractional task, the co-ordination of the fractions being performed by the "Organiser."

The constant tendency of commerce to enlarge the sphere of its operations has resulted in the undertaking of ever-increasing risks, materials are purchased far in advance, production is no longer in response to, but in anticipation of, demand and the consequent possibility of heavy capital losses has led to the growth of a class of professional organisers, bringing the highest directive skill to bear, but often taking very little more of the risk of capital loss than does the labourer in the factory. A great acceleration of this tendency has been one of the most important features of post-war development.

An analysis of the nature of profits shows that, in the case of an individual trading with his own capital, there are the following elements included:—(1) Interest on the invested capital, (2) a kind of insurance premium on the risk of capital loss, (3) salary for his own services as manager, and (4) a surplus, which, if it exists, is his true profit. Under competition this surplus tends to disappear, and if it continues to exist it is the token and reward of ability superior to that of his competitors. Profits represent, therefore, the value which the ability of the organiser adds to the total produce of labour and capital.

Over the long period that share of production which is taken by capital in the form of interest shows a steady tendency to fall, whilst that portion of the capitalist's receipt representing insurance against capital loss tends to increase with the increasing risks of world wide markets and competition. The fact that in boom periods large sums are received as "dividend" conceals the fact that the bulk of the sums so received really represents insurance, and hence it is possible for original holders to capitalise their holdings on long term rates (or market values representing such rates) which really amounts to capitalising the insurance premiums, and by adding this to the original capital, passing the whole risk on to subsequent holders—with results which are obvious when the boom is succeeded in due course by the "slump." The separation of the person of the organiser from that of the capitalist tends inevitably to leave true profits in the hands of the organiser whose ability created the profits and to reserve for the capitalist only pure interest plus insurance cost.

A curious result of the common failure to appreciate the economics of industry under present conditions—as distinct from the conditions present when in the days of smaller industry an organiser was his own capitalist—is the view that capital and labour are opposing interests, and that when industrial difficulties arise they represent a conflict between the two—in fact current industrial difficulties are invariably the result of conflicts between labour and the organiser.

Under existing conditions capital is in a position of as great a risk of being "sweated" by the capable and ruthless organiser as labour was in its unorganised state.

It is due to the same mistake that the co-operative movement is represented as an anti-capitalist movement, whereas it is essentially a capitalistic scheme—the members subscribe capital, are capitalists, and their objective, albeit unrecognised by themselves, is the avoidance of the sweating of the capitalist as well as the spoiling of the consumer. What the movement really aims at is the suppression of the organiser and the annexing of his remuneration—profits. It refuses to recognise the organiser's ability as a separate and necessary factor in modern production. On the other hand, Socialism is a genuinely anti-capitalist movement, aiming at the State ownership of capital; and, in practice as well as in theory,

Socialism has room for the expert organiser, but not for the capitalist. So that on a true appreciation of the position these two movements are not allies but antagonists, aiming at different objectives, each capable of succeeding only if the other fails.

The attempt to parry the attack by profit sharing schemes (in which employees, either with or without shares in the concern, share between themselves at long intervals minute fractions of the profits) is probably a temporary and passing phase. It has not succeeded in solving industrial troubles, rather it tends in the opposite direction—on the long view—in boom periods only can it be of use, and then at the expense of creating trouble for the lean years. In practice, strange as it may seem, industrial autocracy, when combined with good wages and openness to suggestion, are more appreciated than schemes of joint control, for the limitation of the authority shared is much more in evidence than the authority.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Honours for Incorporated Accountant.

Mr. D. R. Mathieson, M.A., A.S.A.A., late of the Indian Civil Service, who recently commenced practice as an Incorporated Accountant at 2, Queen Street, Edinburgh, has just been awarded the Medal in Mercantile Law, and also taken second place in the classes for Public International Law, in the University of Edinburgh.

Late City Chamberlain of Dundee.

The death took place with startling suddenness on 13th ult. of Mr. A. W. Stiven, C.A., City Chamberlain and Financial Adviser to the Dundee Corporation. Mr. Stiven died suddenly while seated in church. Commencing practice as an accountant, he was in 1904 appointed Treasurer to the police department of the Corporation, the gas, water and electricity departments being afterwards added to his original appointment. Last year he was appointed City Chamberlain. In his earlier years he was an enthusiastic cricketer and a member of the well known Forfarshire County Club.

Scottish Society of Economists.

At a meeting of this Society, held in the hall of the Faculty of Actuaries in Edinburgh recently, Mr. Charles M. Douglas, F.F.A., discussed the question of "Monetary Reform: the Choice between Gold and Stabilisation." Granted that we had two alternatives from which to choose, the gold standard or stabilisation, he said, what were the relative merits of the two proposals? On the one hand, the gold standard guaranteed a definite rate of convertibility for the paper currency in terms of gold, while under stabilisation methods the only guarantee provided was that the currency would be convertible within the borders of its own country into an approximately constant quantity of commodities. This latter would not give stability of value to the foreign holders of currency, for admittedly the commodity price levels were not the same for any two countries. The main feature of difference between the two systems was that with the gold standard we achieved approximate stability of foreign exchange at the expense of variation in the internal price levels, while with stabilisation we achieved approximate stability of internal price level at the expense of a varying external exchange. He thought there could be no dispute in the choice for this country—a country whose main source of livelihood was to be found in international trade. The chief countries which would be adversely affected by a fall in the value of gold resulting from stabilisation methods would be America and our own gold producing Dominions, the countries which were most important to us in respect of international trade. It was almost certain that these countries would resist stabilisation methods to the last, and if that were true it would seem that we should also take a firm stand in favour of returning to the gold standard. In conclusion Mr. Douglas said that the best means of achieving

price stability in this country, in his opinion, was through the gold standard. This country could not afford a purely experimental policy.

National Finance and Protection of the Taxpayer.

Mr. David B. Mungo, M.A., LL.B., solicitor, Glasgow, delivered a lecture on March 27th in the Athenaeum, Glasgow, under the auspices of the Scottish Branch of the Society of Incorporated Accountants and Auditors, his subject being "The Constitutional Aspects of National Finance." Mr. R. W. McKirdy, A.S.A.A., occupied the chair. Mr. Mungo, alluding to the value of accountancy in private business undertakings, said the underlying principles of sound accountancy were no less essential in the vast concerns of the State, and their rigid application in the sphere of national finance now played an important part in our Constitution. He traced historically the steps by which the House of Commons had been able to assert its financial supremacy in the Constitution, first against the Monarchy and then against the Lords. Their exclusive power over the grant of supplies had been used, he explained, as a lever to obtain redress of grievances, but this control of the purse had to be supplemented by the principle of appropriation and audit. Some of the worst reigns in our history had been fruitful of the most beneficent Constitutional remedies. Thus it was to the reign of Charles II, notorious for extravagance and unabashed corruptions, that we owed the regular and systematic adoption of appropriation of supplies and audit of accounts under drastic sanctions as a regular part of our financial machinery. Some people now asserted that the hard won securities for the control of supply and expenditure had been surrendered by the House of Commons to the Executive, and that the modern taxpayer was being subjected to arbitrary raids on his pocket for expenditure on objects to which he might be opposed. One safeguard against such a danger was an educated and vigorous public opinion, but that could only be maintained if the taxpayer would cease to be apathetic in the exercise of his political rights and in his interest in public affairs. An important factor in the protection of the taxpayer was the check which a strong and vigilant opposition could impose on financial proposals which were of a predatory character. Finally, the maintenance intact of the office of the Controller and Auditor-General, a functionary independent of party, who was in fact the pivot of our Constitutional system, was an absolute guarantee that not a penny could be drawn out of the national banking account by the Government unless he was satisfied that it was for a purpose authorised by Parliament. On the motion of Mr. R. T. McCutcheon a cordial vote of thanks was accorded to Mr. Mungo for his most interesting lecture.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, e.g. (1923) 2 K.B. :—

T.L.R., *Times Law Reports*; *The Times*, *The Times Newspaper*; L.J., *Law Journal*; L.J.N., *Law Journal Newspaper*; L.T., *Law Times*; L.T.N., *Law Times Newspaper*; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Sessions Cases (Scotland)*; S.L.R., *Scottish Law Reporter*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace (England)*; L.G.R., *Knight's Local Government Reports*.

The other abbreviations used in modern reports are A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; P., President of Probate, Divorce and Admiralty.]

BANKRUPTCY.

Re a Bankruptcy Notice (No. 62 of 1924).

Deed of Arrangement not to be Registered.

The debtor on April 18th, 1922, executed a deed of arrangement assigning his assets and a proportion of his

income to trustees for the benefit of his creditors. The deed stated that it was made to the intent that it should not be registered as a deed of arrangement or otherwise. S, one of the creditors, agreed that so long as the debtor complied with the terms of the deed he would not bring legal proceedings against the debtor, provided the latter gave him a bill for £300. This bill was subsequently dishonoured and S then issued a bankruptcy notice against the debtor, which the registrar set aside on the ground that S had agreed not to take proceedings, and as a consideration for that agreement had received a bill.

On appeal to the Court of Appeal it was held that the deed not being registered under sect. 2 of the Deeds of Arrangement Act, 1914, was void, and the creditor was not estopped from setting up its invalidity and issuing the bankruptcy notice, as there was no representation here which had induced the debtor to alter his position to his detriment.

(C.A.; (1924) 157 L.T.N., 215.)

Rimalt v. Cartwright.

Registration of Documents under the Deeds of Arrangement Act, 1914.

Where a debtor orally offers to pay a composition to his creditors in discharge of his liabilities, and this offer is accepted, a resolution passed by the creditors to that effect and put into writing is merely a record among the creditors that they will accept the offer, and is not in any sense an instrument carrying out a transaction under sect. 1 of the Deeds of Arrangement Act, 1914, so as to require registration under sect. 2 of that Act.

If the creditors, by a deed, subsequently transfer these debts to a third party in consideration of the third party paying them the amounts owing under the composition, this deed requires registration.

(K.B.; (1924) 40 T.L.R., 505.)

BILL OF SALE.

Stephenson v. Thompson.

Transfer of Goods in Ordinary Course of Business.

A farmer sold his growing crop of potatoes in the ordinary course of business under a written contract of sale. Subsequently, but before the potatoes were lifted, he entered into a deed of arrangement for the benefit of his creditors.

It was held by the Court of Appeal that though "personal chattels" in the Bills of Sale Act, 1878, sect. 4, were defined as including growing crops, such crops were also "goods" within the Act, and the sale came within the exception of "transfers of goods in the ordinary course of business of a trade or calling," and therefore was valid against subsequent creditors.

(C.A.; (1924) 68 S.J., 536.)

COMPANY LAW.

Stapley v. Read Brothers, Limited.

Profit and Loss Account.

A company can distribute in dividend the profits of one year without first discharging thereout the losses of the previous year.

A company can treat as profits available for dividend any profits originally applied in writing off or down the book value of the company's assets and subsequently written back.

(Ch.; (1924) 68 S.J., 519.)

REVENUE.

Commissioners of Inland Revenue v. Doncaster.

Undivided Profits paid into Directors' Loan Accounts.

In 1911 a company formed a fund of their undivided profits for the purpose of equalising dividends, called a dividend equalisation fund. It was under the absolute control of the directors. In 1919 the fund was divided among the ordinary shareholders, who were also the directors, in proportion to

their shares. The fund was regarded as a funded loan, and the various amounts were paid into the loan accounts which each director had with the company. The money was in the hands of the shareholders as individuals. The Special Commissioners of Income Tax held that the intention of the company was, primarily, that this fund should be kept as part of the company's assets, and that the directors could not be charged thereon with super tax.

On appeal by the Crown it was held that there was a complete payment to the directors, and that they were liable to pay super tax on the money paid to their accounts out of the fund.

(K.B.; (1924) 40 T.L.R., 433.)

Cohan's Executors v. Inland Revenue Commissioners.

Executors carrying on a Trade or Business, and Excess Profits Duty.

X contracted with Y to build a ship which was still under construction at the death of X. The executors of X entered into a contract with Y for the sale to the company of this ship for £150,000, and themselves held ten-elevenths of the share capital in the company. The executors and the deceased had spent altogether on this ship £92,413, and the assessment to excess profits duty appealed against was in respect of £57,587, the difference between the cost of the ship and the price which the appellants received, the amount claimed for duty at 80 per cent. being over £45,000.

The Court of Appeal held that there was no power to assess the executors, who were not carrying on a trade or business within sect. 45 (2) of the Finance (No. 2) Act, 1915, but what was done by them with regard to the ship was merely in fulfilment of their duty as executors to realise the estate of the deceased to the best advantage.

(C.A.; (1924) 157 L.T.N., 157.)

Moorhead v. Inland Revenue.

Meaning of "Commercial Traveller."

By sect. 39 of the Finance (No. 2) Act, 1915, the trades and businesses to which excess profits duty applies are all trades or businesses carried on in the United Kingdom with certain specified exceptions "but including the business of any person taking commissions in respect of any transactions or services rendered, and of any agent of any description not being a commercial traveller, or an agent whose remuneration consists wholly of a fixed and definite sum not depending on the amount of business done or any other contingency."

It was held by the First Division, Court of Session (Scotland) that the term "commercial traveller" as used in the section was not limited to individuals and that therefore a limited company which through one of its departments carried on the business of commercial travelling was entitled to exemption from excess profits duty, *quoad* that part of the business.

(S.C.; (1924) 61 S.L.R., 188.)

Hartland v. Diggins.

Liability of Employee to Assessment in respect of Income Tax paid by Employer.

The appellant's salary was £500 per annum, and the company, in accordance with their custom, paid in respect of income tax on the appellant's salary the sum of £80 5s. The assessment against which the appellant appealed was made upon him for £580 5s., made up of the salary and the amount of the tax thereon paid by the appellant's employers. The payment of the tax by the employers was voluntary and formed no part of the agreement between them and the appellant, but the payments were allowed as a trade expense to the company in arriving at their profits for income tax.

Rowlatt (J.) held that the payment of the income tax by the company was an emolument of the office held by the appellant and formed part of his assessable income.

(K.B.; (1924) 157 L.T.N., 284.)